A REPORT BY THE SECTOR TASK FORCE ON

THE CANADIAN TOURISM INDUSTRY

Chairman John Powell

REPORT
OF THE
TOURISM SECTOR CONSULTATIVE TASK FORCE

TO
THE MINISTER OF INDUSTRY, TRADE AND COMMERCE, OTTAWA;
PROVINCIAL MINISTERS RESPONSIBLE FOR TOURISM;

AND TO

COMMISSIONERS OF THE YUKON AND NORTHWEST TERRITORIES

SUBMITTED BY

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PREFACE

The existence of the Tourism Sector Consultative Task Force is sufficient evidence that there are severe problems in the tourism industry of Canada. The following report addresses itself to specific problem areas, identifies acute problems, and recommends solutions.

While identifying specifics, a recurring theme became obvious to the Task Force. That theme is the inability of the tourism industry to cope with the legislation and the myriad of regulations that have been imposed on it by all levels of government, on all facets of tourism operations.

The legislation and regulations have removed the opportunity to compete in the international market.

They have removed the initiative of a significant portion of the tourism work force.

They have removed the potential profitability of the industry.

They have slowed down investment in tourism and, latterly, the improvement of the plant.

The entrepreneurial spirit which built the industry has been replaced in large part by skepticism and hesitancy to expand and develop.

The Task Force concludes that unless prompt action is taken by governments there will be no turn around in the basic problems facing Canada's tourism industry.

EXECUTIVE SUMMARY

Object: This Report submits to federal and provincial Ministers responsible for Tourism, as well as to territorial Commissioners, the views of the Tourism Sector Consultative Task Force, representative of the private interests involved in the Canadian tourism industry, on how the economic performance of the industry can and should be improved to the benefit of Canada and Canadians.

The Task Force: This was established in March-April 1978 by the Honourable Jack H. Horner, federal Minister of Industry, Trade and Commerce, following consultation with provincial Ministers responsible for tourism, pursuant to a recommendation by Mr. Horner to the Conference of First Ministers on the Canadian economy, that such a consultative task force be set up.

Specifically the Task Force was charged to review the findings and the recommendations of federal and provincial Tourism Ministers who, along with territorial tourism authorities, at a meeting on 31 January 1978 identified ways and means to improve the economic performance of the industry. The Task Force was asked to consider these ministerial views, priorize them, delete or add recommendations -- all from the point of view of the private sector -- and report by 30 June 1978.

Mr. John A. Powell, President, P. Lawson Travel Ltd. of Toronto, was appointed Chairman. Mr. Garth C. Campbell, Vice-President Marketing, VIA Rail Canada Inc. of Montreal, was named Alternate Chairman. Industry representation was drawn from all provinces and territories and was complemented by a member representative of organized labour and a member from the academic community.

Importance of Tourism: The Report identifies the importance of tourism in Canada and describes the salient characteristics of the industry. It notes that tourism is Canada's largest single employer, sixth largest source of foreign exchange, that the combined value of visitor expenditures and domestic travel spending amounts to a $10 billion industry which accounts for 5 per cent of GNP and yields governments some $5 billion in tax revenues.

The industry is described as capital-intensive, largely Canadian-owned and having a low import content in its "product". It is noted that tourism operations are essentially based on renewable resources.

Tourism is both an industry and a response to a social need: society's adoption of travel as part of lifestyle. The industry does not have a discrete image like other industry sectors, partly because of the heterogeneity and because its many components are largely composed of small businesses, but it is pervasive across Canada. Its "product" includes all the elements that combine to form the tourism consumer's "experience" and exist to service his needs and expectations.

The Task Force believes that tourism should be recognized as an important industry in its own right and is gratified that governments are at last according such recognition.

It points out that tourism can contribute to overcoming regional economic disparities.

It notes that in addition to the private sector, all levels of government in Canada are heavily involved in tourism for economic reasons and because tourism contributes to the social, cultural and physiological well-being of Canadians.

It stresses that tourism has a high growth potential and that, despite the fact that tourism in Canada has displayed poor economic performance since 1973, it has the potential to make a much bigger and more positive contribution to the Canadian economy.

Recent Performance of the Industry: The Report comments that tourism around the world is generally growing and the industry has revealed a buoyancy in recovering from the 1973-74 recession. However, a similar state of affairs does not exist in Canadian tourism.

Tourism in Canada has displayed a poor economic performance in recent years and especially since 1974. The competitive position of the Canadian industry has steadily eroded over the past decade. Its difficulties seem to be centred in the North American theatre. Here, it has been losing "share of market" in its two major markets - Canada, itself, and the United States.

The main problem is that the Canadian travel product is not meeting the demand of its two main groups of customers. Canadians are increasing their travel abroad (and particularly to the United States) at a rate far exceeding the growth of their domestic travel; Americans are coming to Canada in steadily decreasing numbers.

The poor performance has been dramatized by a record travel account deficit within Canada's international balance of payments in 1977. The growth and the magnitude of the deficit attracted widespread attention including that of governments in Canada and prompted investigation of the problems underlying the deficit.

The Issues: Economic analysis has revealed the force of price and income movements since 1974 which have resulted in Canadian tourism goods and services becoming notably uncompetitive with similar goods and services in the United States. In addition it is clear that the policies and practices of governments in Canada in such areas as taxation, wages, the regulatory framework, have contributed to the price disparity.

Other problems identified include changes in travel demand to which the Canadian industry is not making an adequate response; perceived deficiencies in the Canadian "travel product"; difficulties constraining management in the operation of the Canadian tourism plant and facilities; negative attitudes towards Canada as a travel destination and on the part of the Canadian public and people working in Canadian tourism towards visitors; shortcomings in the attention accorded tourism and involvement in tourism on the part of governments; shortcomings on the part of the industry itself; and inadequacies in (if not outright lack of) mechanisms to permit continuing dialogue between governments and the industry, and optimum collaboration and coordination.

Summary of the Views of the Task Force: The Task Force views the travel deficit as an important concern but believes that its correction must ultimately depend on resolution of the issues identified.

Initial correction is already underway through cyclical economic adjustments, i.e., the discount on the Canadian dollar and the expected decline in the rate of growth of Canadian disposable income in real terms compared with the U.S. counterpart, and through some recent helpful steps by government such as deregulation of domestic air travel, encouragement of deep discount package tours for travel in Canada, reduction of retail sales taxes, all of which make travel within Canada easier and more affordable.

But many of the issues cited will remain unless governments and the industry take further positive action.

That governments at all levels in Canada have pointed to areas where they could make their policies and practices more supportive of economic performance in tourism by the private sector, is heartening. The Task Force welcomes this disposition on the part of governments and responds with its recommendations on how to address and resolve the residual issues.

Governments have not heretofore given proper recognition to tourism as an industry in its own right, with special characteristics and needs. Their policies and practices, however inadvertent, have impacted adversely on tourism. They must learn to "think tourism".

The Task Force considers that it is the role of governments to create the kind of business climate in which tourism and tourism-related businesses can prosper. If there were an economic climate conducive to operations of small and large entities in tourism, the traditional reactions of the private sector to perceived business opportunities would provide the kind of response that would overcome many of the residual problems.

To achieve the economic environment desired, the Task Force makes recommendations in the areas of taxation, industry development, travel marketing, wages and related legislation, the regulatory framework, small business and travel industry awareness.

It attaches special importance to its recommendations on

- a National Tourism Plan evolved by governments and industry together. Such Plan to set out the strategies for industry development and for travel marketing, to which governments and the private sector could relate respective operations;

- definitions of the respective roles in tourism of governments at all levels in Canada. This would contribute to improved efficiency and effectiveness of all parties, including the private sector. It would optimize the planning and operational coordination of both development and marketing effort;

- mechanisms for continuing consultation and coordination amongst governments and the industry; and

- a better statistical base for tourism.

Though the primary role must be played by governments if the recommendations of the Task Force are to be implemented, the industry stands ready to respond and collaborate and make good its own shortcomings.

To these ends, the Task Force believes it essential to focus responsibility for tourism related matters in single departments of government, so far as possible, i.e. a "focal point" for all purposes.

Conversely it is essential for the tourism industry that there be provincial, territorial and national tourism industry associations, to represent the industry in dealing with governments on all general tourism matters.

There is a need for a private sector "umbrella" organization for tourism in general, capable of dealing with governments at all levels on general tourism matters. The Task Force sees the Tourism Industry Association of Canada as filling the role of umbrella organization.

There must be continuity of dialogue and interface between industry and government at all levels to ensure needed consultation, coordination and collaboration if the objectives of both parties are to be optimized. Equally there must be adequate communication within levels of government and within industry. To this end, government departments responsible for tourism and tourism industry associations must recognize and observe the "focal point" principle in dealing with each other, whenever general tourism matters are involved. That is, industry associations should deal exclusively with and through designated departments responsible for tourism whenever they have business to discuss with government. Conversely, government departments charged with responsibility for tourism should deal with industry, on general tourism matters, through the appropriate tourism industry associations.

- re Taxation, the Task Force work had two main objectives: to reduce prices and costs in the industry and, thus, in the travel product and to encourage increased investment in Canadian tourism.

Two main issues constraining achievement of these two objectives were identified. One is that the tourism industry is not recognized or treated as an integrated industry sector in current taxation policy, legislation and regulations. (The results have been double or multiple taxation of the industry by governments and specific policies at all levels of government that act as a serious disincentive to tourism. The consequence has been to erode seriously cost and price performance.) The second is that the taxation treatment accorded tourism compares unfavourably with that accorded other industry sectors in Canada.

Tourism is not recognized as an internationally traded service sector - as one of Canada's largest foreign exchange earners - as a largely Canadian owned industry which is labour-intensive and capital-intensive - as a national industry that finds opportunities for development in regional potential. Because of this lack of recognition, tourism is an unprotected industry in an internationally competitive market particularly with regard to its main competitor, the United States. The impact has been felt in the serious erosion of the Canadian industry's competitiveness.

Therefore the Task Force fundamentally recommends

- an integrated taxation policy for the Canadian tourism industry; and
- extension to the tourism industry of the taxation incentives normally awarded manufacturing/processing industries and to encourage exports.

Rationalization of the present hodge-podge of taxes on tourism and of taxation policy toward tourism is a first priority if economic performance of the industry is to be bettered. It will set the stage for renovation of current plant and will attract new investment.

The increased tourism revenues overall from a more successful industry should make up for the initial loss of taxation revenue occasioned by the specific taxation changes recommended relating to

- tourism accommodation
- retail goods purchased by visitors
- convention expenses
- food services
- transportation modes
- promotional material.

- re Industry Development, the Task Force urges on all governments the elaboration of a National Tourism Plan embodying particular measures for industry development.

It considers that a key problem is the flow of capital into the industry. The availability of debt capital is particularly poor in non-urban areas. At issue is the image of tourism in the eyes of lenders for whom the profitability of the industry is perceived as making investment in tourism less attractive then alternatives.

The Task Force believes that the recommendations in this Report on taxation and other matters will, if implemented, improve the average Return-on-Investment in Canadian tourism enterprises. With better profitability (and better management performance) lenders will not be hesitant about lending. In this regard, a meeting with the lending community is recommended under the auspices of government but a necessary prerequisite is solid evidence to the lending community that governments and the tourism industry itself are moving positively on the recommendations of this Report.

Confidence in development and developers must be restored. Perceived public attitudes also must be changed so that the public accepts development, growth and profit as not being bad of themselves.

The Task Force opposes handouts but considers that the tourism industry has been overlooked by governments in the sense that government programs and measures for industry development have been brought into being with other industry sectors in mind. Tourism needs such help, too, i.e. selective financial help or help-in-kind that will generate more productive government/private sector consultation and coordination mechanisms, frameworks for development, research, statistics, technical and planning support. Government guarantees to lenders of development funds are seen as a particularly desirable measure.

Accordingly, the Task Force sets out a series of specific recommendations on industry development relating to

- the roles of governments in supporting development
- industry/government consultation on development
- framework policies, strategies and mechanisms
- destination zone tourism development strategies
- productivity and standards improvement
- financing assistance; tax concessions/incentives
- statistics and research.

- re Travel Marketing, the Task Force stresses that the industry is serving customers, not merely selling a product. Success will depend on its ability to meet consumer needs on a continuing basis.

There is a need for a National Tourism Plan inclusive of a marketing strategy component to which all governments and the industry can contribute and relate.

The highest premium is put upon coordination of marketing between levels of government and between those governments and industry.

The roles in travel marketing at the various levels of government have to be defined and agreed.

A way must be found to ensure that the private sector makes adequate input into government marketing programs. The Tourism Industry Association of Canada should be responsible for providing consolidated tourism marketing planning input to governments from the private sector and for disseminating similar information from governments to the private sector.

In corollary, all levels of government must establish a mechanism to receive and act upon private sector input.

A unified approach to travel marketing is desirable, i.e. agreement on a consumer strategy followed by coordination effected through the Canadian Government Office of Tourism (CGOT).

The Task Force makes additional specific recommendations on

- a fully integrated marketing image of Canada that can be reflected in government and private sector promotion
- the importance of activities and events
- the priority to be accorded to the U.S. automobile visitor
- the desirability of more "So Much To Go For"-type of package tours for domestic travel promotion
- the need for CGOT to have adequate marketing resources especially in the prime U.S. market
- an improved data base as relevant to development of an optimum marketing strategy.

\- re Wages and Related Legislation, the Task Force stresses that the prevailing level of minimum wages in Canada and the impact of related legislation have had adverse consequences on the competitive economic performance of tourism in our country.

Historic standardization of minimum wages and wages legislation across all industry sectors in the Canadian economy has worked to the disadvantage of tourism. The unique and special characteristics and needs of tourism have not been recognized by governments.

Specifically, the matter of a tip differential in the tourism industry should be adopted more widely and in greater degree where it now prevails.

The incidence of premium rates for holiday work should be lessened.

The present scales of unemployment insurance benefits and social welfare payments are believed to sap the general desire to work. The Task Force recommends that a thorough review of unemployment insurance benefits and the scale of welfare payments be undertaken relative to employment appropriately remunerated.

It stresses that the tourism industry is ready to pay wages commensurate with work performance and work importance. This is obviously relevant to the desirability and need to encourage professionalism and job satisfaction. There are opportunities in the industry and high wages are paid for professionalism.

The career image of the industry deserves enhancement.

A labour shortage perceived by the year 2000 must be addressed now. An adequate labour supply must be assured if Canada is to get its share of future growth of tourism. Complementary to a better career image for the industry, there must be improved productivity, obtainable in part from better manpower training and management competence.

- re the Regulatory Framework, the Task Force finds many constraints on tourism flowing from regulations of governments. It examines these and makes remedial recommendations in the following problem areas

- transportation in general, especially policy aspects
- individual modes of transportation
- sales outlet regulations i.e. appointment system for travel agents
- Canadian Transport Commission i.e. Air Transport Committee
- environmental protection
- national parks
- approvals process for tourism facilities development
- accommodation, food and beverage service operations.

In general the Task Force perceives too much regulation without convincing reason. It believes that too many regulations are imposed by governments without any or adequate prior consultation. It concludes that tourism could optimize its contribution to the Canadian economy if there were less intervention from all levels of government.

Regulations are seen to have largely impeded the growth of tourism rather than hastened its growth. There is a requirement to modernize these regulatory processes and have them respond to the needs of the industry and the market, rather than as a policing function.

Tourism has not been given sufficient priority in the past, where conflicts in policy or regulatory processes have arisen between departments or different levels of government. These conflicts should be arbitrated promptly within governments at a high enough level which would give due consideration to the importance of tourism in the Canadian economy. Regulations impacting on the tourism industry should make a positive contribution to its growth.

- re Small Business, the Task Force notes that a majority of operators in the industry are small businesses and believes that they not only play a very important role but have special needs that warrant continuing attention by governments as well as by the industry itself.

Governments are now giving heed to the needs of small businesses. The federal Small Business Policy is a case in point. But more that is pertinent to the tourism industry small business is desirable.

The Task Force is of the opinion that taxation incentives are preferable to grants and subsidies as a general rule.

It notes that the flow of capital to small businesses and, conversely, access to capital by small businesses, are continuing problems.

The Task Force believes that private business, acting collectively through associations, must work to upgrade the standards of the small business portion of Canada's travel plant and facilities.

It urges a grading system for accommodation with minimum standards across Canada. This is a reasonable need of the traveller, would help the Canadian industry mature, could encourage below-par operators to measure up.

Small businesses should be encouraged to join and participate in their regional, provincial and territorial associations. Such associations are the best media by which to pursue the interests of small business. Training is a prime example.

- re Travel Industry Awareness, the Task Force deems it extremely important to achieve increased public awareness of the importance of tourism to Canada and Canadians. In this respect, awareness needs to be increased within governments, the private industry as well as amongst the public at large. The benefits should be explained, for example, in terms of the economy, employment and tax receipts.

It is equally important to improve the attitudes towards visitors of all resident Canadians as well as of persons active in the Canadian tourism industry (whether in the public or private domains). Persons servicing the public should also be made aware of their attitudinal impact on

the travelling public.

The industry itself has a role to play in these efforts, as a responsibility of management.

The Task Force makes a series of specific recommendations to

- the federal government i.e. the CGOT
- to provincial tourism authorities
- to the industry itself.

Conclusions: The Task Force believes that tourism is worth the proposals being put before governments in this Report. It freely admits that the industry, itself, can and must do much to improve itself. It commends its recommendations to the most careful and sympathetic consideration by governments. It believes that a positive response by governments will go a long way to arresting the erosion of entrepreneurship, the incentive factor, which it believes has diminished in large part because of constraints on tourism imposed by governments, if inadvertently and unwittingly.

It hopes that its proposals will be found realistic, reasonable and be implemented as soon as practicable. It pledges the industry "focal point" organizations to work with governments to these ends.

REPORT OF THE
TOURISM SECTOR CONSULTATIVE TASK FORCE

OBJECTIVE

This Report submits to federal and provincial Ministers responsible for tourism, as well as to territorial Commissioners, the views of the Task Force, representative of the private interests involved in the Canadian tourism industry, on how the economic performance of the industry can and should be improved to the benefit of Canada and Canadians.

TASK FORCE

The Task Force was established in March-April 1978 by the Honourable Jack H. Horner, federal Ministry of Industry, Trade and Commerce, following consultation with provincial Ministers responsible for tourism, pursuant to a recommendation by Mr. Horner to First Ministers that such a consultative task force be set up. First Ministers concurred during their discussions on the economy of Canada on February 15.

Specifically the Task Force was charged to review the findings and the recommendations of federal and provincial Tourism Ministers who, along with territorial tourism authorities, at a meeting on 31 January 1978 identified ways and means to improve the economic performance of the industry. The Task Force was asked to consider these ministerial views, priorize them, delete or add recommendations -- all from the point of view of the private sector -- and report by 30 June 1978.

Members of the Task Force are recorded in Annex "A". Mr. John A. Powell, President, P. Lawson Travel Ltd. of Toronto, was appointed Chairman. Mr. Garth C. Campbell, Vice-President Marketing, VIA Rail Canada Inc. of Montreal, was named Alternate Chairman. Industry representation was drawn from all provinces and territories and was complemented by a member representative of organized labour and a member from the academic community. Seven provincial governments participated either as full members of the Task Force or as observers; the territorial governments took part as full members; the Canadian Government Office of Tourism, Department of Industry, Trade and Commerce, provided secretariat services. Notwithstanding the involvement of government officials, the Report is essentially that of the Canadian private sector members.

The Task Force was provided with certain documentation of governmental origin. See Annex "B" for a listing. (A copy of one of these documents - a report titled "Tourism: Economic Performance" is appended as part of this Report.) In general, the Task Force accepted the content of these documents as factual and relevant but did not confine itself to such material.

Plenary meetings of the Task Force were held in Ottawa on April 14, May 2 and June 20-21.

In discharging its task, the Task Force established eight Sub-Committees, details of which are attached as Annex "C", inclusive of respective terms of reference, chairmen, membership. Each Sub-Committee established its own work plan, met at least twice (and in some instances four or more times) and prepared interim progress reports and a final report. These reports were discussed by the full Task Force at plenary meetings on May 2 and June 20-21 respectively. The Sub-Committee reports individually contained comment and recommendations concerning the respective assigned fields of study. Such content, as approved by the full Task Force with certain revisions, became the core of this Task Force Report.

The final reports of seven of the eight Sub-Committees are attached as Annex "D", parts 1 through 7. The report of the Sub-Committee on Instruments for Collaboration and Coordination has been subsumed in Section 2 - General of that part of this Report titled "Summary of Task Force Views".

Chairman John Powell established a Report Drafting Committee comprising himself, Messrs. William Biggs, Gary Clarke and Ralph Fiske, following the second plenary meeting. A draft Report was reviewed on June 27 and made final in principle at a meeting on July 12th attended by all Sub-Committee Chairmen as well as the Report Drafting Committee.

IMPORTANCE OF TOURISM IN CANADA

In terms of the Canadian economy, tourism is Canada's largest single employer, providing jobs either directly or indirectly for an estimated 900,000 people -- 8.5 per cent of the work force.

Tourism is Canada's sixth largest source of foreign revenue, exceeded in 1977 only by the export earnings of motor vehicles, engines and parts; lumber; newsprint paper; woodpulp; and natural gas. Tourism foreign exchange earnings in 1977 totalled over $2.0 billion.

This figure coupled with the estimated $8.0 billion Canadians themselves spent on travel within Canada in 1977 made tourism a $10.0 billion industry -- contributing five per cent of Gross National Product.

It generated directly or indirectly an estimated $5.0 billion in tax revenues to all levels of government.

The industry is capital intensive, especially in its transportation, accommodation and food services sectors. Tourism induced investment in 1977 of $1.5 billion, a figure made up of re-invested earnings plus new funds.

The Canadian tourism industry is largely Canadian-owned. It has low import content: over 90 per cent of the Canadian "travel product" is, in fact, Canadian in origin.

Much of Canadian tourism is based on the country's natural attractions, essentially "renewable resources" though not immune to damage at the extreme. In an age when increasing attention is being given to quality rather than quantity and there is mounting concern about the depletion of natural resources, the Canadian tourism industry by and large recognizes that it is in its own best interests neither to despoil nor overtax.

Tourism has a duality. It is an industry with the usual industrial problems of supply and demand, inflation, labour, capital investment, profit and loss. But it has the added burden of being the major ingredient of a social phenomenon, the 20th century realization of man's dream to travel.

The industry is like the mosaic that makes up the country itself, so piecemeal, so vast and yet so divergent, that it is thought of, if at all, in terms of its larger components, the airlines, hotels, railroads. It doesn't have the discrete image of a cohesive entity such as mining, oil, footwear or textiles.

Part of the reason is that it is made up of 80,000 inter-related, but competitive businesses, most of them small. There are over 190,000 hotel and resort rooms competing for occupancy against each other and 78,000 motel rooms, 29,000 cabins, 23,000 outfitters' units. Campground capacities are commensurate. There are 2,000 travel agents, 100 tour wholesalers and operators, and nearly 1,500 events and attractions. There are 43,000 eating places. There are two national airlines, five regional air carriers; and a couple of hundred local air service operators. There are 68 bus companies; one national railway passenger company but eight regional railway lines; 50 shipping lines; eight major car rental firms.

[The accommodation sector is particularly revealing in so far as concerns the range of size of operations compared with share of capacity. Of the roughly 20,000 enterprises classified as hotels, motels, hunting and fishing lodges, resorts, tourist homes, etc. in 1970-71 and less then 100 units in size, 83.1 per cent averaged under 16 units in size and accounted for 57 per cent of total capacity, 13.4 per cent averaged under 37 units and represented 28 per cent of capacity, and 3.4 per cent averaged about 80 units and shared 15 per cent of total accommodation capacity under 100 units in size. If the over 100 units category is taken into account, i.e. the major urban properties in particular, the number of properties is increased by only about 3 per cent, but this extra group represents nearly 20 per cent of gross accommodation capacity (counting all sizes of enterprises).]

This conglomeration of operations and activities is scattered in every area of the country, urban and rural, depressed and privileged, with its "product" ranging from hunting lodges and meals in wilderness areas to sophisticated facilities in metropolitan areas; from air transport to canoes.

The tourism product is difficult to define in terms of discrete goods and services. Tourism is mainly a service industry. The tourism product includes the range of elements that combine to form the tourism consumer's experience: facilities and services geared specifically for the tourists; natural environmental factors; the general infrastructure of transportation, communication and utility services; and the socio-cultural features of the resident population.

All of it exists to service the needs and expectations of the public; all of its components needing to operate in an inter-related and inter-dependent fashion to survive, keep pace with the travel explosion and prosper -- but only now learning the lesson -- and only now being recognized by governments as an integral sector of the Canadian economy: an important industry in its own right.

As a service industry, tourism is highly labour-intensive, many of its functions being yet beyond the state of the art of automation. Indeed, tourism is on occasion the sole or the major source of employment and income for many small communities and disadvantaged regions, thereby contributing significantly to alleviating regional economic disparities.

In addition to the private sector, three levels of government are heavily involved in tourism promotion and development for compelling national, provincial or territorial and community reasons. (Provincial and territorial government interest, for example, reflects the fact that, for many, tourism ranks amongst the top five most important industrial sectors of the province or territory in question, and frequently is second or third.)

Significant in these regards is that tourism also contributes to the social, cultural and physiological well-being of Canadians.

The word tourism itself, or people's conception of it, has taken on a broader meaning. It is not just organized travel, it is leisure time, sport, social and cultural development -- it it self-fulfillment. In such terms, it is of moment to all segments of society -- families, youth, singles, couples, retired persons, affinity groups -- responding to respective interests.

There is no better bridge between people, ideas, ideologies, cultures, than travel. It can nurture understanding within a country and between countries.

Tourism has high growth potential. Travel has become part of lifestyle and it is accorded a high priority on the part of the increasing numbers of travel consumers. Although the Canadian tourism industry has unmistakedly displayed poor economic performance since 1973, it has the potential to make a much bigger and very positive contribution to the Canadian economy.

RECENT PERFORMANCE OF THE INDUSTRY

In global terms, tourism is the world's fastest growing industry; one of the world's largest generators of international trade. In 1977, there were an estimated 240-245 million international border crossings, world-wide, resulting in travel spending valued at U.S. $50 billion, excluding transportation costs. If the estimated value of domestic travel world-wide be added, total 1977 spending for foreign and domestic travel exceeded U.S. $300 billion according to the World Tourism Organization, Madrid.

In global terms, too, tourism is one of the world's most buoyant industries. After the world-wide recession of 1974-75, tourism was one of the first industries to come back -- from a three per cent drop (in volume terms) in 1974 to a two per cent rise in 1975, a further three per cent growth in 1976 and an additional 9 to 12 per cent growth in 1977.

Notwithstanding the global trends, a similar state of affairs did not occur in Canada. There was evident buoyancy in the Canadian demand for services, especially tourism and recreation (in contrast to lagging demand for durable and non-durable goods). However, though all estimates concerning domestic travel revealed it was still increasing, if slowly, for some years there had been apparent a pronounced and much larger increase in Canadian travel abroad. Canadians were signalling they were more and more going elsewhere than Canada itself for the tourism product they were seeking. Especially did they travel to the United States. In fact, in 1976, for the first time on record, more Canadians visited the United States than Americans visited Canada, a state of affairs that was repeated in 1977 and in 1978 to date.

Moreover, U.S. residents, traditionally rising in number annually as visitors to Canada, began declining as travellers to our country. They, too, were making it clear that they were not finding in Canada what they sought in a travel experience.

Despite continued growth in Canada's international travel receipts in current dollar terms and in domestic travel spending by Canadians, the competitive position of the Canadian industry has consistently eroded over the last decade. Moreover, the erosion has accelerated since 1973 when the combined effect of the energy situation, inflation and economic recession first had their pronounced impact.

In terms of international travel receipts, Canada ranked sixth among the world's nations in 1965 and ninth in 1976. In terms of international travel expenditures, Canada ranked fifth in 1965 and third in 1976. As a percentage of Gross National Product, Canadian international travel revenues declined from 1.3 per cent in 1971 to 1.0 per cent in 1977.

True, as regards overseas visitors, Canada has enjoyed a steady increase in volume and spending up to 1977. There was a slippage in 1977 compared with 1976, the record year, but also compared with 1975, the previous best. In 1977 overseas visitors accounted for nearly 25 per cent of total Canadian visitor revenues, while in 1976 (Olympic year and therefore an aberration from the long term trend) they had contributed over 30 per cent, compared with 26 per cent in 1975. However, returns to date in 1978 indicate that overseas visitors have resumed growth, in both volume and value terms, over the preceding year.

On balance the difficulties of Canadian tourism are in the North American theatre.

In terms of its two most important markets (Canada, itself, and the United States) Canadian tourism has been losing share of market. Only 60 per cent of the total Canadian demand for travel was satisfied in Canada for 1977 as against 74 per cent in 1971, yet the total demand increased over the period.

Of gross U.S. travel spending abroad, the proportion of expenditures in Canada that was 25 per cent in 1965 (and 31 per cent in 1967) dropped to below 20 per cent in 1977, yet total U.S. travel spending abroad increased over the period.

The main problem is that the Canadian "product" -- the facilities, services and attractions of our industry -- is not meeting the demand of its two major customers -- Canadians themselves and Americans. Canadians are increasing their travel abroad at a rate far exceeding the increase in their domestic travel, and Americans are coming in ever-decreasing numbers, 5.4 million fewer in 1977 than just four years previously.

Historically, the combination of increasing millions of U.S. residents visiting Canada and the great bulk of travelling Canadians travelling within Canada, has been the bulwark of Canadian tourism. Canada's international travel account has been virtually in a deficit position since 1951 -- a notable exception being the Centennial Year of 1967. However, an annual favourable balance with the United States from 1962 to 1974 helped offset losses with the rest of the world taken as a bloc.

But that bilateral (Canada-United States) travel account went from a positive balance of $132 million in 1974 to minus $250 million in 1975, to minus $610 million in 1976, and to minus $769 million in 1977.

The two underlying trends -- the staying away of Americans coupled with the going out of more Canadians (in particular to the United States itself) -- gave rise to a global travel account imbalance of $1.2 billion in 1976 and provoked a $1.7 billion travel deficit for 1977.

Tourism has been described by analysts as "recession resistant", i.e. when the overall economy is in difficulty, tourism is less so. By such token, when tourism has problems, the more so does the general economy. In part because of the problems of Canadian tourism to be discussed later, Canadians spend more outside the country than visitors do in Canada. The $3.7 billion that Canadians disbursed on travel abroad in 1977 yielded a deficit in the travel account of $1.7 billion last year, nearly one-quarter of Canada's overall foreign exchange deficit in goods and services.

Various forecasts suggest that the imbalance for tourism in 1978 will fall within the range of \$1.6 to \$1.9 billion, with much opinion favouring a magnitude of about the same size as in 1977. Variation in the estimates is attributable to differing premises as to the discounted value of the Canadian dollar to be used, the lead time needed before that depreciated value will fully affect international travel bookings, the weight to be put on the reductions in the cost of domestic travel, and the importance of other issues identified. Positive factors at play in 1978 that will help offset the deficit are seen to be increased promotion and improved affordability of a Canadian vacation. There are signs of much greater interest in domestic travel, though reliable evidence must await the peak season results.

THE ISSUES

This travel deficit, however large, is only a symptom of more deep-rooted problems besetting the industry.

The recent poor performance of tourism in Canada can be attributed to the following factors:

1. General economic factors - Income and price factors have been especially significant since 1974 in bringing about the substantial increase in Canadian travel expenditures abroad and in the slower growth of travel expenditures by Americans in Canada. In degree, also, the higher prices of Canadian goods and services (vis-à-vis their American counterparts) that have been identified are attributable to government policies and practices bearing on the Canadian industry which, if inadvertently, have impaired the comparative cost and price performance. See Annex "B", the document "Tourism: Economic Performance".

2. Factors related to the demand aspect of tourism - Research indicates that societal trends in North America have not evoked an adequate response on the part of the Canadian tourism industry.

   Rising personal income and education, increased non-work time and a growing appetite for purposeful use of leisure, earlier retirement coupled with greater longevity, general growth in population, a new thirst for knowledge and new experience, a search for recreational outlets, reactions to increasing urban congestion and a need for change and rest from the fast tempo of daily routines and societal pressures have all contributed to change the expectations and the patterns of Canada's potential markets.

   The new social values emerging put emphasis on self-fulfillment. Travel is now perceived as a means towards that end, a means by which social, cultural and educational experience can be realized.

   Unfortunately, surveys done recently on both the Canadian and American tourism markets indicate that in terms of this changing demand, Canada is less and less perceived as being a holiday destination which can provide the experience, the activities and the interaction necessary to achieve the self-fulfilling vacations that more and more people want.

   Coupled with their poor perceptions of Canada is the fact that the attitudes of Canadians and Americans towards Canada as a holiday destination are far from being totally positive. There is growing negative opinion about how tourists are received in this country, how they are treated as visitors, and about the kind of value that Canada provides in travel and vacation experience.

   The foregoing trends and developments simply mean that the travel consumer has matured, is more objective as well as subjective. He realizes that there are alternatives to Canada if the Canadian travel product does not suit him. A growing number of potential visitors are reacting accordingly.

Moreover, Canada's share of market exposure has been constantly decreasing in the last few years. Despite intensifying competition for the Canadian and the American traveller internationally, Canadian travel promotion has been losing ground in both its major travel markets, in part because competitive destinations are spending much more in wooing Canadians and Americans to go somewhere other than Canada, and in part because Canadian travel promotion budgets have not risen commensurately. Indeed, the promotional budget of the Canadian Government Office of Tourism has not kept pace with inflation.

3. Factors related to deficiencies in Canada's tourism product - Research indicates that Canada is perceived as offering a tourism product which, for too many, is dull, uninteresting, difficult to delineate and lacking the diversity and the dramatic changes required for self-fulfilling holidays; that one of the deterrents of travel in Canada in the eyes of the consumer is the cost of vacationing and holidaying (these costs being real or perceived); that Canada does not as yet receive much of the interest and services of its own travel trade especially in bringing together all of the components of a holiday into one attractively priced package; that the Canadian tourism product suffers in comparison with its largest competitor in terms of quality, availability and diversity, especially outside the major urban core; that the quality and level of services of the Canadian travel industry have deteriorated badly over the past several years; that governments in Canada, elements of the Canadian tourism industry and the Canadian public have not been adequately aware of the importance of tourism; and, finally, that recent years have seen the emergence of a whole series of negative attitudes by local residents towards tourism in general.

   The shortcomings seen in the attitudes of the Canadian public and persons working in the Canadian travel industry are perhaps but one facet of a general social decline in civility, courtesy, friendliness which is perceptible but inevitably they adversely affect tourism, the "hospitality industry".

4. Factors related to problems in Canada's tourism plant - Research indicates that even in the face of the prevailing high unemployment, availability of qualified service staff is a major problem facing the tourism industry, especially the accommodation and food service sectors; that tourism businesses (80,000 mostly small) are perceived to be too frequently poorly managed outside the urban areas; that the bulk of the industry which is small business oriented has and continues to experience major difficulties in acquiring either development or interim financing; that the incentives for investment provided by governments have been minimal in the tourism industry as compared with those offered to manufacturing and processing industries; and that higher costs suffered by Canadian tourism operators are caused in large part by actions of all levels of government in taxation, regulations and various legislation impacting on tourism.

5. Factors related to the overall management of tourism in Canada - Tourism has never been classified for statistical purposes as an industrial sector in its own right and as a consequence, there is an inadequate data base. Nor has the "tourism phenomenon" ever been properly delineated and its parameters vis-à-vis leisure and recreation clearly defined. There is no framework for development and maintenance of a national tourism plan and no such plan exists. There is no clearly defined role in tourism for the federal, provincial, territorial and municipal governments. There is inadequate planning and operational coordination in both marketing and development operations (interdepartmentally within governments, between levels of governments and in the government/private sector context as well).

SUMMARY OF THE TASK FORCE'S VIEWS

1. Introduction

The travel deficit is important and if of concern, but its correction must ultimately depend on resolution of the issues identified. The problems that beset and constrain tourism in Canada, and underly the deficit, must be addressed.

Initial correction of the deficit is seen to be underway already, on three counts. First, the decline in the international value of the Canadian dollar, whereby since 1976 it has depreciated from a 5 per cent premium vis-à-vis the U.S. dollar to a current rate of exchange involving an 11 per cent discount on the U.S. dollar. -- a decline also reflected in a depreciated rate of exchange between the Canadian dollar and principal other foreign currencies -- will of itself help correct the Canadian tourism deficit. On the one hand it makes travel abroad by Canadians more expensive and on the other it makes international travel to Canada more competitive. The effect should be to encourage more domestic travel by Canadians and more international visitor traffic.

Second, another cyclical trend that should also serve in degree to improve the Canadian travel deficit is the expected decline in the rate of growth of Canadian disposable income in real terms compared with its American counterpart. The comparative affluence of Canadians vis-à-vis Americans should lessen under existing and foreseeable economic developments. To this extent Canadians may be less able to travel abroad and Americans more so, with potential beneficial effect on the travel imbalance.

Third, governments have already taken some helpful steps. The actions of the federal government to deregulate domestic air travel have clearly resulted in it becoming more affordable and more accessible to more Canadians. Federal encouragement to the development and merchandising by the private sector of deep-discount package tours for travel within Canada has also helped lower the cost of domestic travel. The decisions of both federal and provincial governments to reduce retail sales taxes must also work to the benefit of tourism in Canada.

However, many of the issues cited will still remain unless governments and the private sector take further positive action.

That governments at all levels in Canada have pointed to areas where they could make their policies and practices more supportive of economic performance in tourism by the private sector, is heartening. The Task Force welcomes this disposition on the part of governments and responds with its recommendations on how to address and resolve the various residual issues.

2. General

Past lack of recognition of the importance and potential of tourism in Canada is easily exemplified by comparison of the total dollars re-invested by governments in growth and development of the industry and the total tax revenues derived from tourism.

Heretofore governments have not given proper recognition to tourism as an industry in its own light, with special characteristics and needs. Their policies and practices, however inadvertent, have impacted adversely on tourism. This situation must be corrected. Governments must learn to "think tourism".

In this context it is relevant to point out that the "travel product" is slow to change if only because it tends to be capital intensive. When it does not sell well, time is required to adapt to the true demand in the market place. But the industry is diverse, dispersed, fragmented, heterogeneous and visibly not well organized to respond rapidly and collectively to the winds of change. Moreover, the Task Force considers that the national concerns for tourism and its problems may not be shared in equal intensity at the level of individual operators, many of them small. How to motivate the individual operator is critical to improving the overall economic

importance of tourism in Canada. The Task Force believes that the best way is through action by governments to improve the economic environment.

Government's role is to create the kind of business climate in which tourism and tourism-related businesses can prosper.

It is industry's role to run the businesses which make up tourism, provide the employment, earn the foreign revenues, etc. Let there be minimum government involvement.

If there were an economic climate conducive to the operations of small and large entities in tourism, the traditional reactions of the private sector to perceived business opportunities would provide the necessary positive response; many of the residual problems would be overcome.

To bring about such better business environment for tourism, this Report makes a number of recommendations respecting major areas where the Task Force believes that improvements must be effected: in taxation, industry development, travel marketing, wages and related legislation, the regulatory framework, small business and travel industry awareness.

Further, the Task Force urges the need for

i) elaboration and maintenance of a National Tourism Plan, evolved through discussion amongst governments and the industry. Such Plan should set out the strategies for industry development and for travel marketing, to which governments and the private sector could relate respective operations;

ii) definition of the respective roles in tourism of governments at all levels in Canada. This would contribute to improved efficiency and effectiveness of all parties, including the private sector. It would optimize the planning and operational coordination of both development and marketing effort;

iii) mechanisms for continuing consultation and coordination amongst governments and the industry;

iv) a firm statistical base to measure the industry and its progress, provide a means of measuring the impact of tourism related policies and programs, and to give required visibility and clout. (Other industries are better defined, evaluated, known.)

The Task Force does not pretend that its Report exhausts the subject or that its recommendations cover all the needs. Undoubtedly there are still other matters that deserve attention. However, given the time available for preparation of this Report, the Task Force believes that it has focussed on the areas of the greatest importance.

In regard to the recommendations, it will be obvious that the primary role must be played by governments in Canada. Notwithstanding, the Task Force stresses that the industry stands ready to collaborate, respond, play its due part including addressing those matters or perceived shortcomings that are clearly its own responsibility.

To these ends, the Task Force believes it essential to focus responsibility for tourism related matters in single departments of government, so far as possible. This would contribute the obvious benefit of maximum coordination of the wide range of governmental activity bearing directly or indirectly on Tourism that is carried out by many different departments and agencies within each level of government in Canada. Such focus of responsibility really begs the question as to the status of tourism in the eyes of governments. The focal point must be accorded due importance and be a part of the decision-making process on all matters affecting tourism at all levels of government. Tourism itself must have a higher profile in government.

It is essential for the tourism industry that there be provincial, territorial and national tourism industry associations, to represent the industry in dealing with governments on all general tourism matters. Where such provincial and territorial associations do not yet exist, they should be established; where they do exist, they should be strengthened.

While specialized industry associations such as the Alliance of Canadian Travel Associations- ACTA (retail travel agents and tour wholesalers) or the Canadian Automobile Association - CAA (automobilist) or the Canadian Restaurant and Foodservices Association - CRFA (food service outlets) must continue to deal as heretofore direct with governments on matters related to their special interests, there is a need for a private sector "umbrella" organization for tourism in general, capable of dealing with governments at all levels on general tourism matters. The specialized industry associations should belong to the umbrella organization and lend their support whenever general tourism interests are involved. The Task Force sees the Tourism Industry Association of Canada (TIAC) as filling the role of umbrella organization but cautions that TIAC must be representative of all sections of the industry, functionally and regionally.

There must be continuity of dialogue and interface between industry and government at all levels to ensure needed consultation, coordination and collaboration, if the objectives of both parties are to be optimized. (This will be of special moment in regard to the follow-thru on the recommendations of the Task Force). Equally there must be adequate communication within levels of government and within industry. To this end, government departments responsible for tourism and tourism industry associations must recognize and observe the "focal point" principle in dealing with each other, whenever general tourism matters are involved. That is, industry associations should deal exclusively with and through designated departments responsible for tourism whenever they have business to discuss with government. Conversely, government departments charged with responsibility for tourism should deal with industry, on general tourism matters, through the appropriate tourism industry associations.

Both sides in the focal point relationship can lend an important degree of credibility to each other, which will lead to a smooth working relationship and to a more effective solution of industry problems.

Government and industry should work together to ensure that Canadians at all levels become more aware of the importance of tourism and of the role which each plays in achieving industry prosperity.

Existing government programs designed to aid Canadian industry in general are not designed to meet the needs of tourism; they were developed with manufacturing and processing industries in mind, primarily. Thus the existing instruments are perceived as inadequate. Incentives are needed and loan guarantees for industry development are considered essential. Moreover, within the tourism industry there is a general lack of understanding even of the existing measures and how to take advantage of them. The range of variety should be reviewed with industry in the context of the industry development strategy within the proposed National Tourism Plan.

While not making light of perceived industry problems, it is felt that many of them would solve themselves were the recommendations of the Task Force to be approved and implemented. However, "band-aid" treatment of problems is no substitute for the tough job confronting both industry and government to tackle and resolve the major difficulties addressed by this Report and ensure the potential contribution of tourism to Canada and Canadians.

3. Taxation

The Task Force's own work confirms and furthers the findings of the study "Tourism: Economic Performance" so far as the effect of taxation on the Canadian tourism industry is concerned.

Task Force review of the taxation framework and development of recommendations to improve the situation had two objectives: first, reduced prices and costs and,

second, increased investment.

The major handicap of the Canadian industry is high price and costs. Because of the increasingly international nature of tourism, it will only be possible for Canada to draw guests from abroad and retain the Canadian tourist, if prices are competitive. It is to be emphasized that the present impact of taxation contributes very significantly to the industry's lack of competitiveness with the United States, the chief market for and the principal competitor of Canadian tourism. In the short run, therefore, a great effort must be made to reduce costs and prices. The benefits that will accrue will be in the form of higher volumes which will in turn help reduce the travel deficit, stimulate employment as well as generating tax revenues and much needed profits.

The recent declines in volumes and increases in costs have led to reduced profits. This has created a shortage of funds for reinvestment and acted as a deterrent to lenders. Because of this situation, investment in new equipment and facilities, in renovations and in improvements that are essential if Canada is to have an attractive product for the consumer, has been delayed. Renewed profitability and a healthy climate for investment in the industry are essential.

There are two principal taxation issues which constrain achievement of these objectives.

One is that the tourism industry is not recognized or treated as an integrated industry sector in current taxation policy, legislation and regulations. The results have been:

i) double or multiple taxation of the industry by governments;

ii) specific policies at all levels of government that act as a serious disincentive to tourism e.g. extremely burdensome municipal property taxes; federal "user pay" policy which is either inequitably applied or applied without consideration of its negative impact on tourism; sales tax surcharges particularly in respect of alcoholic beverages and meals.

The consequence has been to erode seriously the industry's cost and price performance.

The second is that the taxation treatment accorded tourism compares unfavourably with that accorded other industry sectors in Canada. Current provisions in taxation policy and legislation include tax incentives for the export of goods and for the protection and stimulation of manufacturing/processing industries. Tourism however, is not granted equal treatment.

Tourism is not recognized as an internationally traded service sector and one of Canada's largest foreign exchange earners; as a largely Canadian-owned industry which is labour-intensive as well as capital intensive; as a national industry that finds opportunities for development in regional potential (not constraints as with some industries). As a result of this lack of recognition, tourism is an unprotected industry in an internationally competitive market, particularly with its major competitor, the United States. The impact has been felt in the serious erosion of the Canadian tourism industry's competitive cost and price performance with the United States.

Therefore the Task Force fundamentally recommends

i) an integrated taxation policy for the Canadian tourism industry, and

ii) extension to the tourism industry of the taxation incentives normally awarded manufacturing/processing industries and to encourage exports.

Indeed more intensive investigation may reveal the special advantages of even further incentives for tourism. But the Task Force stresses that in general subsidies are not wanted.

The Task Force believes that rationalization of the present hodge-podge of taxes on

tourism and of taxation policy toward tourism is a first priority if the economic performance of the industry is to be bettered.

If present taxation pressures and constraints are relieved, the Task Force considers that this would go a long way to encourage existing entrepreneurs to renovate and to attract new investment. Both kinds of development are essential if Canada is to maintain market share or increase it.

Hereafter when changes in taxation are being considered, the Task Force urges all governments to take fully into account the potential impact on the tourism sector. Governments should think about tourism for its own sake as an industry sector.

The Task Force contends that increased tourism revenues overall from a more successful industry should make up for the initial loss of taxation revenues occasioned by the specific taxation changes recommended hereafter.

These specific recommendations are set out in the next section of this Report. Suffice it here to note that they relate to taxation on:

i) tourism accommodation
ii) retail goods purchased by visitors
iii) convention expenses
iv) food services
v) transportation: air, motor coach, automobile
vi) promotional material

See, also, the full report of the Sub-Committee on Taxation which is Part 1 of Annex "D".

4. Industry Development

The Task Force urges on all governments the elaboration of a National Tourism Plan embodying particular measures for industry development. These latter should be designed to upgrade and refurbish existing plant and facilities; encourage development of attractions and events (the essence of the travel experience); develop high potential destination areas; improve the small businesses in tourism through upgrading, productivity enhancement, profitability; establish country-wide policies and strategies for tourism development inclusive of systematic consultation between governments and industry; and improve dissemination of information about and for the industry.

It considers a key problem is the flow of capital into the industry. The availability of debt capital is particularly poor in non-urban areas. At issue is the image of tourism in the eyes of lenders for whom the profitability of the industry is perceived as making investment in tourism less attractive than alternatives.

The Task Force notes that the total amount spent annually on foreign travel by U.S. residents is expected to double by 1985. It estimates that if Canada is to retain its existing share of 20 per cent of total U.S. travel abroad, an additional $5 billion of debt capital will have to be invested in Canadian tourism plant and facilities by 1985. To regain Canada's 1971 share of 25 per cent of all U.S. travel abroad, would require nearer $8 billion. And such incremental capital inflow relates to the opportunities represented by the U.S. travel market only.

The Task Force accepts that it is the goal of all governments to restore buoyancy to the Canadian economy. This of itself is a sine qua non. In the conviction that the recommendations in this Report re taxation and other matters, will, if implemented, improve the average Return-on-Investment in Canadian tourism enterprises, the Task Force is confident that with better profitability (and better management performance, too), lenders will not be hesitant about investing.

The Task Force thinks that it would be relevant and useful to take steps to attract the attention of the lending community to the growth potential of tourism and the industry's investment needs. It therefore urges that the Minister of Industry, Trade and Commerce with his provincial and territorial counterparts and tourism industry leaders meet with leaders of financial institutions on a national basis,

to point out tourism's impacts and prospects for accomplishing national goals, to outline government policies in respect of tourism, to portray the opportunities for investment that the future of the industry offers, to encourage the lending community to take a greater interest in tourism, to identify the requisites of lenders for a greater flow of capital to the industry and to consider responses accordingly.

But the Task Force re-iterates that a necessary preliminary is solid evidence to the lending community that governments and the tourism industry itself are moving positively on the recommendations of this Report.

Confidence in development and developers must be restored. Potential development money is being chased away by procedural constraints and the economic environment. Developers see governments as adversaries. The Capital Gains Tax and its regulations are a disincentive in a capital intensive industry such as tourism, especially for small operators. Generally, the Capital Gains Tax has changed investment prospects, diverted would-be investors. In addition it has contributed to turning the psychological tide of public opinion against entrepreneurs.

The Task Force further believes that perceived public attitudes must be changed so that the public accepts development, growth, profit as not being bad of themselves.

The Task Force opposes "hand outs" but considers that the tourism industry has been overlooked by governments in the sense that government programs and measures for industry development have been brought into being with other industry sectors in minds. Tourism needs such help, too, i.e. selective financial help or help-in-kind that will generate more productive government/private sector consultation and coordination mechanisms, frameworks for development, research, statistics, technical and planning support. Government guarantees to lenders of development funds are seen as a particularly desirable measure.

Many specific recommendations in the interest of industry development are set out in the next section of the Report.

They variously relate to:

i) the roles of governments in supporting development
ii) industry/government consultation on development
iii) framework policies, strategies and mechanisms
iv) destination zone tourism development strategies
v) productivity and standards improvement
vi) financing assistance; tax concessions/incentives
vii) statistics and research

They have as their objectives, ways and means to bring about a stronger and more competitive tourism industry; one that can better deliver a product which will bring optimum satisfaction to the consumer in a changing market. Thereby the industry would become more successful and better able to contribute to a stronger Canadian economy and increased jobs.

Refer, also, to the full report of the Sub-Committee on Industry Development that forms Part 2 of Annex "D".

5. Travel Marketing

It is to be borne in mind that the industry is serving customers, not merely selling a product. Success will depend on its ability to meet consumer needs on a continuing basis.

The Committee sees the need for a National Tourism Plan inclusive of a marketing strategy component to which all governments and the industry can contribute and relate.

The highest premium is put upon coordination of marketing between levels of government and between those governments and industry. Currently there is a high degree of overlapping at government levels that confuses the private sector, the

foreign operator and the consumer, be he domestic or international. The result is a marketing approach that is currently uncoordinated and without common purpose. Existing marketing facilities of government are being under-utilized, particularly in the area of research and analysis; coordinated pre-planning is marginal and there is a lack of integration.

The roles in travel marketing at the various levels of government have to be defined and agreed. The question of who is to prepare and execute the market planning and what area if responsibility is to be maintained by the various levels of government must be addressed.

A way must be found to ensure that the private sector makes adequate input into government marketing programs. The private sector must organize itself to a much higher degree of its very necessary input to marketing Canada on a national or regional basis is to be considered by governments with any acceptable level of credibility. A leading private sector organization such as the Tourism Industry Association of Canada (TIAC) should be responsible for providing consolidated tourism marketing planning input to governments from the private sector and for disseminating similar information from governments to the private sector. In corollary, all levels of government must establish a mechanism to receive and act upon private sector input. Part of the problem is the fragmentation of the industry. It must get its act together. There is a critical need to ensure that there are strong regional, provincial and territorial tourism associations so that private sector inputs may be collected, collated, optimized and channelled to governments.

A unified approach to travel marketing is desirable, i.e. agreement on a consumer strategy, followed by coordination effected through the Canadian Government Office of Tourism (CGOT). Though the respective points of view of private entrepreneurs are narrower than those of governments, yet they can come together.

Development of a fully integrated marketing image of Canada that can be reflected in government and private sector promotions is deemed very important. The present confused image results from lack of coordination.

There is need for a program to encourage and support the marketing of existing attractions and events as well as to encourage and support the development of new attractions and events by both governments and the private sector.

Promotion to U.S. automobile visitors should be strengthened. The Task Force is especially attracted to CGOT initiatives to package tours for the auto traveller.

The Task Force recommends allocation of more resources to CGOT to expand the "So Much To Go For" type of packages for domestic travel.

It believes that CGOT marketing should have adequate resources to offset inflation and meet competition especially in the prime U.S. market.

In the Task Force's opinion the present data base is inadequate to the development of a marketing strategy. This should be rectified and should be an integral part of a National Travel Plan that is responsive to consumer demands.

Specific recommendations on travel marketing follow in the next section of this Report. See, also, the full report of the Sub-Committee on Travel Marketing which is Part 3 of Annex "D".

6. <u>Wages and Related Legislation</u>

The Task Force endorses and furthers the findings in the document "Tourism: Economic Performance" on the adverse impact of minimum wages and related legislation prevailing in Canada, on the competitive economic performance of tourism in our country.

Historic standardization of minimum wages and wages legislation across all industry sectors in the Canadian economy has worked to the disadvantage of tourism. The

unique and special characteristics and needs of tourism have not been recognized by governments. The consequences have been pronounced disadvantages accruing to the Canadian industry compared with its U.S. counterpart in particular -- especially as minimum wages set the scale of all other wage levels in tourism.

Specifically, the matter of a tip differential in the tourism industry should be adopted more widely and in greater degree where it now prevails. And the incidence of premium rates for holiday work should be lessened. The Task Force believes both actions are merited because of the special nature of the tourism industry and would improve its economic performance.

The Task Force further believes that the present scales of unemployment insurance benefits and social welfare payments sap the general desire to work. It offers as supporting evidence that significant staff vacancies exist in tourism and other industry sectors despite high unemployment.

It recommends that a thorough review of unemployment insurance benefits and the scale of welfare payments be undertaken relative to employment appropriately remunerated.

It stresses that the tourism industry is ready to pay wages commensurate with work performance and work importance. This is obviously relevant to the desirability and need to encourage professionalism and job satisfaction. There are opportunities in the industry and high wages are paid for professionalism. The career image of the industry deserves enhancement.

A labour shortage perceived by the year 2000 must be addressed now. An adequate labour supply must be assured if Canada is to get its share of future growth of travel. Complementary to a better career image for the industry, there must be improved productivity obtainable in part from better manpower training and management competence.

A number of specific recommendations on wages and related legislation will be found in the next section of this Report. Refer, also, to the full report of the Sub-Committee on Wages and Related Legislation that is Part 4 of Annex "D".

7. <u>The Regulatory Framework</u>

The Task Force endorses the observations in "Tourism: Economic Performance" about the constraints flowing from regulations of governments, but goes further.

In its consideration of problem areas, the Task Force reviewed in detail the constraints on tourism perceived in the regulatory framework governing

i) transportation in general
ii) individual modes of transportation i.e. air, bus, rail, private auto, rental vehicles, water services
iii) sales outlet regulations i.e. current carrier appointment systems of travel agencies in Canada
iv) Canadian Transport Commission
v) environmental protection
vi) National Parks
vii) approvals process for tourism facilities development
viii) accommodation, food and beverage service operations

In general the Task Force perceives too much regulation without convincing reason. It believes that too many regulations are imposed by governments without any or adequate prior consultation. It concludes that tourism could optimize its contribution to the Canadian economy if there were less intervention from all levels of government.

Regulations are seen to have largely impeded the growth of tourism rather than hastened its growth. There is a requirement to modernize these regulatory processes and have them respond to the needs of the industry and the market, rather than as a policing function.

Tourism has not been given sufficient priority in the past, where conflicts on policy or regulatory processes have arisen between departments or different levels of government. These conflicts should be arbitrated promptly within governments at a high enough level which would give due consideration to the importance of tourism in the Canadian economy. Regulations impacting on the tourism industry should make a positive contribution to its growth.

In general the Task Force deplores what seems to be increasing intervention by government under the guise of "national transportation policy" which is still evolving, not well thought through as to its implications for tourism, and invoked without adequate prior consultation with the industry.

In regard to "sales outlet regulations", the Task Force recommends that the current carrier appointment systems of travel agencies in Canada be reviewed as to how changes to the system would encourage the Canadian travel agent to better support the sales of Canadian destination tourist products. The Task Force recognizes that this is foremost a matter to be discussed between the Air Transport Association of Canada (ATAC) and the Alliance of Canadian Travel Associations (ACTA) organizations, but increased regulatory actions of a licensing nature by the various provincial governments should be evaluated in connection with this subject.

A propos the Canadian Transport Commission (CTC), the Task Force recommends that the existing CTC policies should be reviewed to ensure that, whilst these regulations govern all air travel within, to and from Canada, prominent importance is given to air transport as a vehicle to increase and improve tourism travel to and within Canada. Discussions should be held with all interested parties concerned with those regulations of a potentially restrictive nature.

The Task Force sees a pressing need for National Parks and tourism to be better related. It believes that there should be more facility development in the National Parks consistent with consumer demand. This can be accomplished in harmony with the natural environment and would more realistically achieve the raison d'être of the Parks. In these regards, the Task Force recommends that responsibility for National Parks should be transferred to the Minister of Industry, Trade and Commerce.

The Task Force perceived an unduly constraining regulatory framework affecting accommodation and food services establishments, including beverage services. These regulations seem primarily to emanate from local and provincial or territorial levels of government. In particular, attention is drawn to the complexity and cost of regulations in the field of fire protection and prevention, health, the serving of liquor. These regulations and standards are sometimes confused and conflicting, extremely onerous, occasionally unreasonable as to time and nature. The Task Force notes that regulations on the retailing of automobile services are similarly often unreasonable in times and nature from the standpoint of the tourist/consumer. The Task Force recommends that the responsible authorities examine these requirements with relevant industry associations to seek rationalization.

A series of specific recommendations on the improvement of the regulatory framework is contained in the next section of this Report. See also the full report of the Sub-Committee on the Regulatory Framework which is Part 5 of Annex "D".

8. Small Business

The Task Force notes that a majority of operators in the industry are small businesses and believes that they not only play a very important role but have special needs that warrant continuing attention by governments as well as by the industry itself.

Governments are giving heed to the needs of small businesses. The federal Small Business Policy is a commendable case in point. However, the Task Force believes that it could be turned to better advantage in the instance of small businesses in tourism.

The Task Force is of the opinion that taxation incentives are preferable to grants and subsidies as a general rule. It concedes there may be occasions for grants to be used selectively for particular purposes of governments.

It notes that the flow of capital to small businesses in tourism and, in corollary, access to capital by small businesses, are continuing problems. In this regard it hopes that the new federal proposal for Venture Enterprise Investment Companies (VEICs) will prove helpful.

The Task Force considers that private business, acting collectively through associations, must work to upgrade the standards of the small business portion of Canada's travel plant and facilities.

It urges that a grading system for accommodation with minimum standards across Canada be evolved, while recognizing the complexity of the task and its cost. Such a grading system is only a reasonable need of the traveller. It would help the Canadian industry to mature. It could encourage below-par operators to measure up.

Small businesses should be encouraged to join and participate in their regional, provincial and territorial associations. Such associations are seen as the best media by which to pursue the interests of small businesses. In particular they could assist in training needs whether for staff or operators. All training should be developed with and through such associations to ensure the true needs are met; training should not be left exclusively to governments though government assistance is clearly welcome and necessary. In this regard the Task Force endorses the efforts of the industry-dominated National Advisory Committee on the Accommodation, Food and Beverage Industry.

A series of specific recommendations regarding small businesses in tourism will be found in the next section of the Report. See also the full report of the Sub-Committee on Small Business which is Part 6 of Annex "D".

9. Travel Industry Awareness

It is extremely important to achieve increased public awareness of the importance of tourism to Canada and Canadians. In this respect awareness needs to be increased within governments, the private industry and amongst the public at large. The benefits should be explained in terms of, for example, the economy, employment and tax receipts.

It is equally important to improve the attitudes towards visitors of all resident Canadians, as well as of persons active in the Canadian tourism industry (whether in public or private domains). Persons servicing the public should also be made aware of their attitudinal impact on the travelling public: with increased awareness of the importance of the industry and their role in support of it, interest in the industry itself will be generated. Attitudinal awareness should be emphasized in tourism and hospitality curricula.

The industry itself has a role to play in these efforts, as a responsibility of management.

A number of specific recommendations regarding travel industry awareness are set out in the next section of the Report. See also the full report of the Sub-Committee on Travel Industry Awareness which is Part 7 of Annex "D".

RECOMMENDATIONS IN DETAIL

1. TAXATION

A. Tourism Accommodation Section

A.1 Retail Sales Taxes on Rooms, Food & Beverage

In the United States, sales tax rates are generally lower than in many of the Canadian provinces. Since the taxes are levied with price as the basis, therefore the disparities in base prices between Canada and its competitors are magnified when taxes are added.

Recommendation: Provincial governments should identify the individual states with

which they compete for travellers or from which they want to draw visitors and establish taxes on rooms, food and beverage competitive with those states. This will make the Canadian product more competitive and will stimulate sales volumes.

A.2 Retail Sales Tax - Dual Tax Rate

Some provinces, like Ontario and Québec, have a separate higher tax rate applicable to food and beverages. This is discriminatory and presents additional administrative burden.

Recommendation: Removal of dual rate structure to make product more competitive to the consumer and stimulate employment in this labour intensive sector.

A.3 Sales Tax Paid by the Tourism Accommodation Industry

The accommodation operator pays taxes on tangible personal property. The hotel guest, the end user, also pays tax on his furnished room. This is an illustration of double taxation. In a number of states, furnishings are sales tax exempt. The Canadian accommodation industry is in need of renovation and refurbishing investment.

Recommendation:

i) Hotel furnishings be exempt from retail sales tax;
ii) Federal sales tax be removed for three years on renovation and refurbishing items - this will stimulate industries such as furniture, textile and construction.

A.4 Compensation for Collection of Sales Tax

Inadequate compensation is provided to establishments for the administrative burden in collecting taxes on behalf of governments.

Recommendation: Realistic compensation be established, based upon percentage of amount collected.

A.5 Capital Taxes

The tourism industry is not typified by a high return on investment. This further places additional tax burden, particularly during start-up years when no profits exist.

Recommendation: Provincial taxation authorities to review this tax.

A.6 Tax Treatment of Capital Investment

Taxation does not recognize the special characteristics of the accommodation sector. Frequently, the capital cost allowance write-offs are not sufficient to match real depreciation, and too often bonus allowances and fast write-offs favour manufacturing and resource industries. (See attachments Schedule I and Schedule II - setting out a comparison of Canada vs. United States and United Kingdom, plus comparison, in-Canada, of accommodation industry vs. manufacturing industry.) Incentive in this area will provide immediate stimulus to capital improvement.

Recommendation:

i) In next three years, renovation and conversion costs to existing properties be written off over two years (same as Class 29 of Manufacturing);
ii) 5 per cent tax credit for investment renovations and conversions;
iii) 15 per cent bonus valuation for next three years for renovations and conversions.

A.7 Classification of Capital Cost Allowance

Certain assets, having shorter life, should be re-classified.

Recommendation:

i) Class 12 (100 per cent) to include housekeeping and other small equipment e.g. vacuum cleaners;
ii) Drapes, carpets, vinylling, etc. should be amortized over four years;
iii) Television sets and other room furnishings should be written off at 25 per cent.

A.8 Inventory Allowance

This allowance has little benefit to the accommodation industry for the majority of real inventory is situated in guest bedrooms in the form of furnishings and equipment assets.

Recommendation: Definition be broadened to include room furnishings.

A.9 Municipal Property Taxes

These constitute the third largest operating expense of the accommodation sector and are generally unaffected by the performance of the operation. In recent years, hotel revenues have been stagnant, while property taxes have increased dramatically. Canadian municipal taxes on accommodation are possibly the single greatest cost differential relative to the United States. Evidence shows Canadian operators are paying 100 per cent more than U.S. competitors of similar operations.

Recommendation:

i) Governments give a direct 25 per cent rebate of Property Taxes;
ii) Operators be permitted to gross-up by 50 per cent municipal property taxes in order to lower income tax;
iii) Assessment authorities to be encouraged to give greater weight to revenue or income approach to assessment.

B. Other Items Relating to Taxation

B.10 Sales Tax on Retail Goods

Shopping is a major activity for many tourists. In the past, many U.S. visitors purchased in Canada various items perceived to be cheaper. Today most items are more expensive in Canada.

Recommendation: For the benefit of foreign visitors, an administratively easy system be set up to remove retail sales tax and where possible, Federal Sales Tax be eliminated or reduced for a number of selective items. This would stimulate retail sales and manufacturing.

B.11 Tax Treatment of Convention Expense

U.S. convention expense legislation, Sec. 602 of the U.S. Tax Reform Act of 1976, is affecting the Canadian tourism industry adversely.

Recommendation: After a given time frame, if Sec. 602 be not amended, then Canada should alter its tax regulations on conventions to make them similar to U.S. present legislation.

C. Food Service Industry Section

C.12 The food service and accommodation industry pay heavy taxes on alcoholic beverages. A fresh approach is needed in this area of taxation. In Canada, the quantity buyer in fact is paying a higher price than an individual consumer; while in the United States, the quantity buyer is purchasing at wholesale prices with various discounts totalling in the area of 40 per cent.

Recommendation:

i) As a start, the end price for quantity buyers to be the same as for consumers;
ii) Over a period of time, a substantial price differential be formed between consumer and quantity buyer, in favour of the quantity buyer.

C.13 Sales Tax on Equipment Used in Food Preparation

The food service industry is generally not regarded as manufacturing a product, even though it applies labour and capital to raw material to produce a new product. There is some inconsistency in that pizzerias, donut shops, etc. are exempt from sales tax, on their equipment and yet restaurants and others are not.

Recommendation: For the food service industry, both Provincial and Federal Sales Tax be eliminated on equipment used in food preparation.

D. Air Transportation Section

D.14 Aviation Fuel Tax

a) Federal Sales Tax of 12 per cent applies to fuel used on domestic flights but is rebated on international flights. This encourages international flights at the expense of domestic.

Recommendation: Aviation fuel consumed in Canada be exempt from the 12 per cent Federal Sales Tax.

b) Aviation Fuel Tax

Provincial taxes on aviation fuel on international flights are questionnable as to benefits received plus representing a possible source of friction in bilateral agreements.

Recommendation: Aviation fuel for international flights be exempt from provincial taxes.

D.15 Capital Cost Allowances - New Aircraft

Canadian investments in new aircraft over the next seven years will be in excess of $4 billion. To stay competitive with latest innovations in speed, comfort and safety, it is necessary that incentives, allowances be granted to tourism similar to ones in manufacturing and resource industries. Recognition should be made of the extremely favourable tax treatments available in the United States towards capital investment.

Recommendation:

i) Reinstatement of 40 per cent Capital Cost Allowance on commercial air carriers, or at least provision of an allowance in excess of 25 per cent commensurate with the degree of fuel efficiency;
ii) Extension of Federal Investment Tax Credit and extension of the definition for Inventory Allowance to air transportation;
iii) Removal of the Capital Cost Allowance restrictions regarding the leasing of aircraft by airlines and elimination of the withholding tax on aircraft lease and loan payments to non-residents, thereby resulting in the availability of lower rental rates.

D.16 Special Excise Tax on Purchase of Aircraft

Government imposed this tax to conserve fuel. It is argued that private aircraft are not high fuel-consuming vehicles and, therefore, this tax adds another cost to Canada's tourism operators who use small aircraft for fly-in fishing, hunting and tourist lodge vacations.

Recommendation: Exemption from this special tax.

D.17 Air Transport Tax

The tax is 8 per cent or maximum $8 for domestic travel and a flat $8 for travel outside Canada. For a visitor from the United States subject to the air tax of his own government, Canada has halved its Air Transportation Tax and has looked for similar action from the United States but without success.

Recommendation: Remove tax completely from visitors originating outside of country or reduce amount of tax internally and externally.

D.18 Airport User Charges

In the area of user charges, concern is expressed that insufficient research has been undertaken to determine the true apportionment of cost which should be applied to the actual user compared with those costs attributed to other factors.

Recommendation: Recognize that there are many airports essential to communities which do not produce sufficient traffic to be self-sufficient. Therefore, Ministry of Transport (M.O.T.) should modify its cost recovery objectives to allow for full credit to be given to national, regional, social and economic benefits and should separate out cost attributed to direct user.

D.19 Passenger Security Fee

Passenger security fee of 20¢ per passenger was imposed on air carriers in 1976. Security is a state responsibility.

Recommendation: Burden of security should be borne by all citizens.

D.20 Fuel Through-Put Fee

When fuel is provided in M.O.T. airports, M.O.T. has a lease arrangement with the distributor. Part of the lease is a through-put charge on gallonage. This through-put charge is taxed at 12 per cent Federal Sales Tax.

Recommendation: Through-put fee should be excluded from the levy of 12 per cent Federal Sales Tax.

E. Motor Coach Transportation Section

E.21 Capital Cost Allowance - Motor Coach Transportation

It is important, where discriminating visitors are concerned, for motor coach companies to be competitive having the latest equipment in safety, convenience and comfort. Currently a capital cost allowance of 30 per cent is applied to motor coach equipment. An incentive could be provided by recognition of an "economic" life rather than a depreciation value.

Recommendation: That an increase in the capital cost allowance rate be applied to transportation companies involved in the tourism industry where buses are used for sightseeing.

E.22 Motor Coach Licensing - Provincial Tax

Where a motor coach is operational in 3 or 4 provinces a licence must be obtained for each of the provinces concerned. This increased cost must be passed on indirectly to tne consumer.

Recommendation: That provinces agree amongst themselves that, where interprovincial travel is concerned, the cost of licensing should be on a road mileage basis and proportional to degree of operation within the province.

E.23 Provincial Fuel Tax

Currently motor coach companies pay a fuel tax to provinces based on the estimated amount of fuel in the fuel tank at the time of crossing the provincial border. This is administratively cumbersome.

Recommendation: That provinces enter into an interprovincial agreement on the remittance of fuel tax similar to that in effect for the sales tax based on mileage.

F. Automobile Transportation Section

F.24 Automobile Transportation - Excise Tax on Gasoline

In June 1975, the Federal Government imposed a special excise tax of 10¢ per gallon on gasoline used for private cars and other personal uses. This tax was imposed to encourage motorists to be more efficient in their use of gasoline and to generate revenue for the oil import compensation. Of approximately 900,000 claimants eligible for a tax rebate, only 400,000 have applied, suggesting complexity in the rebate system. The automobile, important for tourism to and within Canada, accounts for approximately 80 per cent of U.S. visitors coming to Canada.

Recommendation: That the 10¢ per gallon excise tax on gasoline used by private motorists be removed. If necessary, an equitable 3¢ per gallon excise tax be imposed on consumption of all petroleum products to continue generating an equivalent net revenue for the oil import compensation program.

F.25 Car Rental - Federal Sales Tax on Cars Purchased

The cost of new cars is higher in Canada than in the United States. While approximately $100 of the differential in price is a Special Government Tax on air conditioning, much of the differential lies in the 12 per cent federal sales tax applied to the price of the Canadian cars. The addition of extra taxes applicable in Canada but not applicable in the United States, our major tourist destination competitor, makes it more expensive for tourists to rent cars in Canada due to higher initial costs, higher depreciation, higher interest charges, higher insurance, etc.

Recommendation: That exemption be obtained from the application of the Federal Sales Tax to automobiles used for car rental purposes in Canada.

G. Promotional Material

G.26 Promotional/Advertising Material - Federal Sales Tax

Where literature is shipped out of the country for promotional purposes abroad, the Federal Sales Tax does not apply. With the emphasis to retain Canadians in Canada and encourage them to explore their own country, there is merit in providing concessions or incentives in the form of tax relief which would allow greater publication of the Canadian product.

Recommendation: That all printed matter such as brochures, tariffs, etc. be exempt from the 12 per cent Federal Sales Tax.

2. INDUSTRY DEVELOPMENT

A. Policy as to Roles of Governments in Supporting Development

A.1 -- that Governments accept the challenge to create the favourable environment which is a prerequisite to attracting the investment necessary to tourism development; accept the role of catalysts and supporters.

A.2 -- in the conviction that the recommendations in this Report re taxation and other matters, will, if implemented, improve the average Return-on-Investment in Canadian tourism enterprises, the Task Force is confident that with better

profitability (and better management performance, too), lenders will not be hesitant about investing.

The Task Force thinks that it would be relevant and useful to take steps to attract the attention of the lending community to the growth potential of tourism and the industry's investment needs. It therefore urges that the Minister of Industry, Trade and Commerce with his provincial and territorial counterparts and tourism industry leaders meet with leaders of financial institutions on a national basis, to point out tourism's impacts and prospects for accomplishing national goals, to outline government policies in respect of tourism, to portray the opportunities for investment that the future of the industry offers, to encourage the lending community to take a greater interest in tourism, to identify the requisites of lenders for a greater flow of capital to the industry and to consider responses accordingly.

But the Task Force re-iterates that a necessary preliminary is solid evidence to the lending community that governments and the tourism industry itself are moving positively on the recommendations of this Report.

A.3 -- that as soon as possible the Governments concerned be prepared to make known their policies and priorities as to financing assistance and taxation incentives which can favour investment in tourism-related facilities/projects (as present now or resulting from decisions as to recommendations elsewhere in this Report).

A.4 -- that Governments treat the tourism industry the same as other industry sectors (e.g. manufacturing) in their various financial and business development assistance programs or other "help-in-kind" programs.

A.5 -- that the Department of Industry, Trade and Commerce recognize its key role as the focus of Federal Government responsibility for tourism and reflect that responsibility by providing appropriate resources to its Canadian Government Office of Tourism (CGOT) to allow it to be a centre with professional competence and programs supporting tourism development.

A.6 -- that the Honourable Jack Horner be congratulated on his declared decision to formally change the name of the department responsible for tourism, from the Department of Industry, Trade and Commerce to the Department of Industry, Trade and Tourism; that provincial and territorial governments express similar confidence and recognition of tourism, accord appropriate priorities and continuity of resources to support tourism development, in the light of their own needs and opportunities.

A.7 -- that each of the federal and provincial/territorial tourism departments or agencies be constituted by their Ministers to be "expeditors" and "advocates" to simplify the procedures and ensure prompt handling of applications for tourism-related projects through the appropriate governmental regulatory agencies; where bottlenecks develop, review the problems with an inter-departmental committee (such as the IDCT at federal level).

B. Industry/Governments Consultation on Development

B.8 -- that governments give greater recognition to the needs of better consultation with private industry on tourism development policies, strategies, priorities and ways and means of sharing in initiatives for development improvement.

B.9 -- that governments accept the principle that strong associations are necessary to a strong industry; that the most efficient "delivery system" to industry to accomplish most governmental objectives is through the associations. That governments commit themselves to a system of financial support to associations appropriate to the tasks and without compromising principles.

C. Framework Policies, Strategies and Mechanisms

C.10 -- that the CGOT in consultation with provinces/territories and industry formulate forward-looking and country-wide tourism development policies with regional emphasis, and a basic framework which will be favourable for provinces/territories and private industry at large to undertake their own initiatives to produce a more competitive Canadian product.

C.11 -- following through, that provinces/territories and CGOT concert in enabling the provinces and territories to formulate provincial tourism development strategies (and regional strategies); further refining these again to an increased emphasis on local destination area strategies.

C.12 -- that such tourism development strategies be kept as flexible as possible to respond to new opportunities; they be made the point of reference for not less than annual consultation with a view to revision, between governments and industry associations - at national, regional, provincial, territorial and local levels.

C.13 -- that the series of Canada/Province (or territory) Sub-Agreements on Tourism Development under provisions of DREE's General Development Agreements (GDAs) be utilized to the full responding to provincial/territorial needs, DREE mandates and participation by the CGOT as the representative of the federal Minister responsible for tourism. That provinces/territories recognize the importance of consultation on these with private tourism industry and move immediately to set up with key industry associations an advisory committee to review strategies, policies, priorities, forms and results of the programs (including the criteria and plan of operation of the financial incentives if any).

C.14 -- that the CGOT, as the federal focus of tourism responsibility, strengthen its collaboration with the Departments of Fisheries and Environment, Indian and Northern Affairs, National Health and Welfare, Regional Economic Expansion, Secretary of State and of Transport, bi-laterally and via a stronger Inter-departmental Committee on Tourism (IDCT), ensuring incorporation in tourism development policies and strategies of consideration of tourism-related leisure, recreation and cultural activities.

C.15 -- that CGOT, in consultation with provinces/territories, work out with Parks Canada necessary strategies taking account of the important place of National Parks and Historic Sites in tourism; without compromising preservation of Canada's rich natural environment, relate these to tourism development policies and take them into account in provincial and territorial development strategies; recognize an urgency in arriving at wise decisions in the national interest which can be understood by the general public and commercial interests alike.

D. Destination Zone Tourism Development Strategies

D.16 -- that prime attention be given in provincial/territorial tourism development to a "destination zone" strategy, based on population, transportation and all-season market potential; and that the CGOT, in consultation with provinces/territories and industry give a priority to making the technology of "destination areas" and events/attractions - as proving successful in other parts of the world - more available to Canadian industry.

D.17 -- that the CGOT with a small committee from DREE, provincial/territorial representatives, FBDB, and representatives of private tourism interests study the possible needs (as emerge from a country-wide development strategy), the cost/benefits and ways and means of funding support for high priority projects in "opportunity" areas.

D.18 -- that the CGOT with provinces/territories and industry associations review the needs for information at destinations, reception, ways and means of involving tourists in community interaction, etc.; and as findings dictate incorporate in programs - of the local community, industry and governments.

E. Productivity and Standards Improvement

E.19 -- that the CGOT, working with provinces/territories and in close consultation with industry, develop concepts, outline a cohesive program which can reduce productivity problems to tourism-related businesses to support provincial/territorial tourism development strategies; and for delivery principally via sector associations through "self-help" member programs.

E.20 -- that the Tourism Industry Association of Canada (TIAC) and other industry sector associations, working with governments, develop programs which would ensure the optimum in member benefit from improvement in professional standards and technology. That industry associations accept greater responsibility for leadership in training and education to produce an increasingly qualified manpower force - working through the provincial Manpower Needs Committees and participating as necessary in the National Advisory Committee (NAC) on Manpower, Education and Training in the Accommodation, Food and Beverage Services Sector: through this advising governments directly or through the Canadian Conference of Tourism Officials (CCTO) on priority needs, and facilitating effective assistance from governments.

E.21 -- that CGOT, provincial and territorial governments and industry associations take initiatives to consider the needs, benefits and costs of a grading system of facility standards (accommodation and food service, to begin with, considering by standard sector classification); and aiming at cross-Canada uniformity.

E.22 -- that the industry itself, through its associations, and with such help as possible from governments consider stimulation of plant improvement by infecting the industry, communities and public with the pride of "clean-up/paint-up/tidy-up to welcome visitors"; with awareness of the importance of tourism to industry and to every Canadian; with a spirit of hospitality and a dedication to good service.

E.23 -- that provinces/territories in consultation with industry and CGOT consider ways and means of ensuring availability of medium and lower-priced accommodations and standards for same, via farm-vacation homes, bed and breakfast homes, low-cost multiple cabin units; for consideration as projects within provincial/territorial development strategies.

E.24 -- that the industry - probably via provincial Manpower Needs Committees or via NAC consult with provincial tourism officials or CCTO, as to the needs for additional tourism/hospitality education and training facilities of the calibre of L'Institut du Tourisme et de l'hôtellerie du Québec, perhaps one or two regionally located, or perhaps of the New Brunswick mobile type; that industry/governments consider course specialization in subjects/skills deemed urgently needed, based upon estimates prepared by industry.

E.25 -- that the CGOT and provinces/territories, in concert with associations, assure clear information reaches industry broadly as to programs/activities of governments which may be drawn on by tourism-related industry, directly or via their association. (For example, the details and implications of the series of measures announced over the last several months providing various assistance to small businesses).

F. Financing Assistance; Tax Concessions/Incentives

F.26 -- that following through on Ministers' consultations with the investment community, the CGOT and provincial/territorial tourism departments undertake a progressive information program addressed to capital markets, providing facts as to tourism impacts, emerging development opportunities, etc.

F.27 -- that efforts be made to expand the knowledge by the industry of financing assistance sources, including provincial development corporations, FBDB, SBLA; that DREE take steps (with CGOT) to increase utilization of the RDIA loan guarantee feature for tourism-related operations; that CGOT seek collaboration of other governments and private agencies, provincial development corporations, FBDB, CASE counsellors, DREE and provincial tourism financial incentives administrators, chartered banks - in working out ways of helping industry operators broadly to

improve submissions for financing.

F.28 -- that the CGOT take responsibility for early distribution via associations of details of the most recent "Small Business Program" financing and tax concession assistance measures.

F.29 -- that the Federal-Provincial CCTO Committee investigating tax and regulation incentives investigate and report as to:

- ways and means under which the regulations regarding MURBs (Multiple Unit Residential Buildings) can apply to resort condominium projects;

  Present MURB legislation requires that MURBs be 80 per cent residential. The Department of National Revenue interprets the licensing of condominium bedrooms as creating a "commercial" content that makes the 80 per cent residential rule impossible to achieve in a resort condominium where bedrooms or the whole unit are rented to the public;

  A simple change in interpretation by Revenue Canada would provide a major impetus to development of resort condominiums and encourage equity participation by many more Canadians in the tourist industry;

- accelerated depreciation for high priority area tourism-related facilities as is done in certain areas for a certain time to assist certain industries realize development potential in the national interest;

- legislation/regulations which might make use of the "time-sharing" concept, as a means of facilitating investment cost sharing in ownership of condominiums or "vacation" homes as part of resort accommodation facilities;

- a seasonal tax credit for tourism operations which can only function for a portion of the year. (Either relating to sales taxes or municipal);

- ways and means of providing mortgage guarantees to encourage lenders to finance sales of vacation homes;

- "capital gains" tax exemption on one's "principal residence" being extended to a vacation home, as a stimulus to tourism and to the construction industry;

- making RHOSP applicable to vacation homes;

- CM&HC lending programs and guarantees ceasing to discriminate against resort homes both in policy and practice.

F.30 -- that the industry associations, especially TIAC, study the proposal tabled recently by the Minister of State for Small Business under which VEICs (Venture Enterprise Investment Companies) might be set up by private entrepreneurs with governmental financial guarantees, as a means of ensuring an additional source of venture capital; that the associations present their views before the Government at an early date favouring the proposals or otherwise.

G. Statistics and Research

G.31 -- that the tourism industry and associations should establish basic data needs, more adequately acquaint themselves with that now available (with assistance of government tourism authorities), and direct appropriate resources to high priority/use data and studies.

G.32 -- that governments place a high priority on ensuring a more comprehensive and better quality tourism data base. A regular quantitative travel survey should be funded and carried out by Statistics Canada. Motivational and qualitative studies should continue to be conducted by CGOT to determine market changes and support policy and program decision making as to tourism development.

G.33 -- that Statistics Canada accord a high priority to continuing to improve international and domestic tourism statistics (in consultation with the CGOT, provinces/territories and industry associations) and ensure that regional data is available disaggregated at least to key zones within provinces/territories.

3. TRAVEL MARKETING

A.1 -- that maximum utilization of existing governmental instruments be made and that closer integration of federal, provincial and territorial marketing plans be achieved through proper utilization of these instruments, for example: the Canadian Conference of Tourism Officials, the Federal-Provincial Conference of Ministers, and others which currently control regional Tourism Marketing Meetings.

A.2 -- that Ministers direct their officials to re-examine the existing marketing and planning process and where necessary, insist on better utilization.

A.3 -- that a policy be developed to facilitate a co-ordinated national approach to tourism marketing bearing in mind the federal, provincial and territorial interests. This policy must clearly define the roles of the various levels of government.

A.4 -- that Ministers instruct their officials to support a program co-ordinated by the CGOT to develop a fully integrated marketing image and a common theme equally reflected in Government and private sector promotions.

A.5 -- that responsibility be defined by Governments as to their areas of specific interest as follows:

- that the attraction of visitors to any Province /Territory or area be the prime responsibility of that Province, Territory or area.
- that promotion of travel by Canadians within Canada be a cooperative responsibility of the CGOT and the Provinces and the Territories on an agreed regional structure.
- that CGOT maintain the responsibility of coordinating the marketing of Canada's tourism abroad,with input from the Provinces and Territories to update the CGOT concerning their marketing plans and goals.

A.6 -- that Governments, provincial, territorial and federal, establish within their organizations a mechanism to receive and act upon private sector input.

A.7 -- that a leading private sector organization, such as the Tourism Industry Association of Canada (TIAC), be responsible for providing consolidated tourism marketing planning input to governments from the private sector and for disseminating similar information from governments to the private sector.

A.8 -- that programs be developed to capitalize more on existing local attractions and events, and to encourage and support the development of new attractions and events. (The value of attractions and events in attracting visitors to Canada and to encourage Canadians to visit other regions of their country cannot be over-emphasized. The success of the Calgary Stampede, the C.N.E., Barkerville, Stratford, Klondike Days, etc. etc. speak for themselves.)

A.9 -- that promotional programs directed at attracting U.S. visitors to Canada, primarily automobile traffic, be strengthened, and that the initial goal should be to extend the length of stay in Canada by one extra day. (It is estimated that if current visitors to Canada stayed one extra day, the travel deficit

could be reduced by $400 million).

A.10 -- that more, competitively priced inclusive tour packages promoting intra-Canada travel be created through utilization of existing low air fares, ground packages and the coordinated promotional dollars of industry and Government to ensure high impact promotion of Canada to Canadians.

A.11 -- that the CGOT be recognized in its capacity as co-ordinator of Canadian tourism and be given a budget that is realistic and in keeping with the revenues generated by the industry for Canada.

A.12 -- that the provisions of Québec Bill 101 which make mandatory that travel literature be printed unilingually in French and in separate form, unilingually in English (i.e., two separate brochures), constrain domestic travel promotion because few of the remaining provinces and territories have their travel literature available in such a separate form and find that the Bill's provisions accordingly create an additional expense.

That the Québec requirement that members of the travel trade wishing to do business in Québec must have a registered office in Québec adds an additional expense and is accordingly a restraint on domestic travel promotion.

That in order to facilitate domestic travel it would be desirable for all promoters in Canada to have their travel literature available in both official languages.

4. MINIMUM WAGE AND RELATED LEGISLATION

A. Minimum Wage

A.1 -- that governments should be sensitive to any changes in the minimum wage recognizing the competitive position of the Canadian tourism product and the fact that, traditionally, in the hospitality industry all wages on scales above the minimum wage are increased accordingly when the minimum wage is increased.

B. Tip Differential

B.2 -- it is recommended that appropriate wage legislations be amended to establish, over time, tip differentials in amounts ranging upwards of 25 per cent of the minimum wage for employees receiving gratuities in full-service restaurants, hotels and lounges. (This should not be done by freezing the tip differential minimum e.g. if minimum wage increases by $.20 then tip differential minimum should increase by say $.05).

B.3 -- considering the fact that gratuities are taxable personal income, it is recommended that federal legislation regarding Canada Pension Plan, Unemployment Insurance and Taxation be amended to ensure consideration of gratuities in the calculation of CPP and UIC payments and benefits. (The employee would have the option of making full payments to the UIC and CPP based on his or her personal earnings through gratuities).

C. Statutory Holidays

C.4 -- that legislation regarding statutory holiday pay be amended to read: "Where an employee is employed in a full-time position in a hotel, motel, restaurant, resort, tavern or other continuous service operation in the hospitality sphere, and the employee, because of the nature of the operation, is required to and does work on a public holiday, the employer shall pay the employee one and one-half times his regular rate or pay him his regular rate and substitute a mutually agreed upon compensatory day off in lieu".

C.5 -- that legislation be amended to exempt "seasonal" employees in the hospitality industry from legislation requiring additional compensation for working on statutory holidays.

D. Minimum Wage Rates for Young Workers and Students

D.6 -- that legislation be amended allowing minimum wage rates for young workers and students to apply to all students in seasonal hospitality industry positions irrespective of their age.

E. Hours of Work

E.7 -- that federal, provincial and territorial legislation be amended to allow automatic full seasonal averaging of hours worked by employees occupying seasonal positions in the hospitality industry and that notification of "averaging" can be made at the beginning of the season, and required reporting completed within 30 days of termination of employment.

5. REGULATORY FRAMEWORK

A. Transportation

AA. General Policy

AA.1 -- each transportation mode should be developed on sound business principles, with the concept of subsidization, or cross-subsidization, rejected except in those cases where transportation services are required to remote areas or materially less developed points, in support of national and/or regional development objectives.

AA.2 -- federal and provincial and territorial authorities should undertake prior consultation with the tourism industry on all matters involving transportation as it bears on tourism, prior to the implementation of such policy.

A propos the Canadian Transport Commission (CTC), the Task Force recommends that the existing CTC policies should be reviewed to ensure that, whilst these regulations govern all air travel within, to and from Canada, prominent importance is given to air transport as a vehicle to increase and improve tourism travel to and within Canada. Discussions should be held with all interested parties concerned with those regulations of a potentially restrictive nature.

AB. Air Carriers

AB.3 -- a re-evaluation of current government policy should be conducted on mainline, regional and local or third level air services in view of the importance of air transportation to the development of tourism.

AB.4 -- consideration should be given to the growth of an increased number of facilities at airports with the ability to handle inbound international charter traffic, and that a more responsive attitude and greater mobility in meeting the needs of such traffic be displayed by the customs and immigration authorities.

AB.5 -- the airport user-pay policy makes air transportation in Canada non-competitive with that of the United States and is detrimental to Canadian tourism development.

The industry is in general agreement with the principle of the necessary "functional" requirements being paid for by users whenever it is economically justifiable.

However, governments should assume all costs related to social and/or regional development of facilities. Airports can be classified as full-recovery, partial recovery or nil recovery.

Anything in excess of necessary "functional" requirements should not be paid by the users (i.e. artwork). The users must have a very strong voice in what is defined as "functional" requirements. All users, including carriers, concessionaires, the travelling as well as general public should share the burden of paying for "functional" requirements.

AB.6 -- the existing CTC policies should be reviewed to ensure that, while these regulations govern all air travel within, to and from Canada, prominent importance is given to air transport as a vehicle to increase and improve tourism travel to and within Canada. Discussions should be held with all interested parties concerned with those regulations of a potentially restrictive nature.

AB.7 -- it is recommended that where baggage inspection is mandatory at airports, scanners should be universally used to avoid the negative impact created with the travelling public due to personal inspection of luggage by airport security personnel.

AC. Bus Lines

AC.8 -- an urgent need exists for uniformity of provincial regulations regarding non-resident bus line operations which should result in the encouragement of any licensed operator to operate anywhere in Canada, including city tours if his traffic originates in another city.

(The requirement for bus operators from other provinces or states to use local operators for city sightseeing, not only represents an additional cost and inconvenience to both operators and visitors, but often leads to the use of sub-standard equipment which creates a real impediment to tourism).

AD. Rail Services

AD.9 -- user pay as a principle does and should apply to passenger rail transportation in Canada, except where passenger rail transportation is necessary but not economical: then subsidies are warranted.

AE. Private Auto

AE.10 -- variations in provincial laws governing liability in the case of traffic accidents can be detrimental to the development of tourism. Provincial governments, in enacting new automobile insurance legislation, should be aware of the potential in improving, or adversely affecting, that province's tourism image to the private motorist. A case in point is the reaction to the new Québec Auto Insurance Act with its ramifications in the field of accident compensation. It is recommended that action be taken to alleviate this situation or to provide visitors with extended liability insurance based on their specific needs.

AF. Rental Vehicles, including Campers & Motorhomes

AF.11 -- there is an urgent need to standardize the provincial regulations governing licensing requirements for lessors of vehicles having a carrying capacity of 9-14 passengers. In all provinces except Ontario, it is possible to rent and drive such a vehicle (Rally wagons or sports vans) with a regular driving license. In Ontario, prospective lessors of such vehicles must secure a special license. In view of the desire of tourists to rent such vehicles and to cross provincial boundaries on their vacations, the current non-standard licensing requirements act as a deterrent to tourism.

AF.12 -- it is recommended that Canadian municipalities review their existing licensing regulations with respect to rent-a-car firms to eliminate, where possible, what appears to be discriminatory practices of double-taxation.

AF.13 -- it is recommended that Canadian municipalities consider licensing such firms on the basis of each rental location rather than on a per-registered vehicle basis.

AG. Inland Waters

AG.14 -- the requirements for the establishment of passenger ship services are unduly harsh and should permit the use of bonding rather than cash deposits.

AH. Marine (Boat Rental) Harbour & Ferry Systems

Pacific Coast

AH.15 -- there is need to consider the impact on tourism of policy changes pertaining to the quality, capacity and cost of ferry services.

AH.16 -- regulations should not ignore the growing foreign cruise vessel market into British Columbia points.

Atlantic Coast

AH.17 -- the importance of the quality, capacity and rate structure of ferry services amongst the Atlantic Provinces to the development of tourism is given inadequate attention.

AH.18 -- small vessel regulations are unrealistically rigid and detailed. Insufficient consideration is given to the various types of water traffic, i.e. harbour - coastal - Great Lakes - and off-shore over open waters, and therefore creates undue financial hardship on vessel owners.

B. Sales Outlets Regulations

B.19 -- that the current carrier appointment systems of travel agencies in Canada be reviewed as to how changes to the systems would encourage the Canadian travel agent to better support the sales of Canadian destination tourist products.

It is recognized that this is foremost a matter to be discussed between the ATAC and ACTA organizations, but increased regulatory actions of a licensing nature by the various provincial governments should be evaluated in connection with this subject.

C. Environmental Protection

C.20 -- attention should be given to the uniform application of legislative requirements by both provincial and federal authorities and also within each government's separate jurisdiction.

C.21 -- long-term, clearly defined objectives governing investment decisions are required so that uncertainty can be eliminated and corporate planning proceed normally.

C.22 -- a careful monitoring of the effect on fishing of water pollution must be conducted at regular intervals but action must be taken also to ensure that such inspections and actions therefrom are not overdone.

D. National Parks

D.23 -- the Task Force feels that tourists place high priority on visiting our National Parks, but are prevented by lack of facilities of all types. If the parks are to be used by Canadians and foreign visitors (other than hikers and campers) then more accommodation must be provided and to do this the Parks Department should make its regulations more workable.

(For example - in 1966, the then Minister of Northern Affairs stated "When completed, the visitor complex in the lower Lake Louise area will provide a shopping centre and over 1,000 accommodation units to meet the needs of summer and winter visitors". Twelve years later, two small hotels have been built with a total of 400 beds. Obviously, the call for tenders issued in 1965 was far too stringent to attract hotel operators. This example is typical and the demand is still there.)

D.24 -- it is suggested that new criteria be established to encourage the development of "tourist oriented facilities" within designated growth areas identified in existing and future National Parks.

D.25 -- more specifically, governments are urged to encourage the construction of hotel, motel, convention and campground facilities, including auxiliary and related business services, in harmony with environmental considerations.

D.26 -- it is further recommended that the administration of the National Parks be removed from the jurisdiction of the Department of Indian and Northern Affairs to the Ministry of Industry, Trade and Commerce.

E. Tourist Facilities Development

E.27 -- the growing tendency of governments to have dozens of regulatory agencies involved in approvals procedures for tourist facilities development has been responsible, in large degree, for the large exodus of Canadian investment capital. Investors interested in placing capital funds into tourist facilities in Canada indicated to the Regulatory Sub-Committee examples of their frustrating experiences in attempting to develop such enterprises. These frustrations appear to stem from the lack of a centralized control responsible for guiding these investors through, in most instances, a maze of agencies involved at the municipal, provincial and federal levels of government, such as fire, health, building codes, etc. Such control currently is exercised by one Provincial Government Tourism Department in Canada, which could be used as a model for others to follow. This model is based on guiding investors through the necessary agencies to obtain approval for development projects. This guidance and advice highlights where necessary, the action required by these investors as well as by the involved agencies. Thus in the decision process, the factors which will positively stimulate travel to and within Canada will prevail.

F. Liquor Regulations

F.28 -- liquor regulations differ from province to province and inhibit tourist development, particularly where they involve consumption of alcohol in food and beverage outlets, at special events, and during Sundays and some public holidays - all occasions or times which generally stimulate tourist travel. The Task Force recommends that the federal government attempt to have the provinces continue to liberalize and standardize liquor regulations.

6. SMALL BUSINESSES

A. Plant Upgrading

A.1 A nationally consistent grading system is recommended and it must be developed by the provinces collectively. Three rating systems are necessary:

i) for accommodation - the system currently in operation in Manitoba and Saskatchewan should serve as the basis for a national system;

ii) for restaurants, beverage services - a system must be developed by the Canadian Restaurant and Foodservice Association and its provincial counterparts;

iii) for service stations - a system must be developed by the appropriate national and provincial associations.

B. Training

In dealing with the training of owners and managers, the Sub-Committee recommends that:

B.2 -- national associations of the private sector in tourism, working with the

appropriate educational bodies, develop a series of short two to three day seminars that can be held in centrally located towns and cities across Canada. These seminars should be held as close as possible to the place of business, in recognition of the difficulty an owner/manager has in getting away from his work place.

B.3 -- in recognition of the need for better management, efforts should be made by provincial and territorial associations to encourage owners and managers to set a good example for further staff training by attending at least one such seminar a year.

Three other aspects of training require further study.

B.4 -- there are great many training opportunities available to the industry. The Sub-Committee is of the opinion that these courses are not always what is needed and where they are needed. An evaluation of the entire training process by private industry and those agencies involved in training is required to ensure that the programs:

- make sense to the industry
- motivate training
- disseminate the required skills.

B.5 -- the cost of the programs that are currently offered was singled out as an area of concern. The rationalization process referred to above should help to reduce the current cost.

B.6 -- there must be an incentive to the employer to encourage staff training.

- for staff training the employer would qualify for a grant equal to 50 per cent of the staff cost while the staff was away on training courses.

- a general principle, unless in the case of pre entry to the work force, upgrading courses should be kept short and should be offered near the place of business.

The Sub-Committee concurred with the recommendations of the Industry Development Sub-Committee: "that the industry - probably via provincial or territorial Manpower Needs Committees or via NAC consult with provincial and territorial tourism officials or CCTO, as to the needs for additional tourism/hospitality education and training facilities of the calibre of L'Institut du Tourisme et de l'hôtellerie du Québec, perhaps one or two regionally located, or perhaps of the New Brunswick mobile type; that industry/governments consider course specialization in subjects/skills deemed urgently needed, based upon estimates prepared by industry".

The Sub-Committee recognizes the valuable work being undertaken by the National Advisory Committee in the field of training and recommends that the National Advisory Committee be encouraged to continue its work with all possible speed and that it be given the resources by both industry and government to enable it to complete its tasks.

C. Financial Incentives

While the application of a grading system will encourage the upgrading of the physical plant, some form of financial incentive also must be available. There are a number of financial incentive programs now available but they are not all applicable on a national basis and in many cases do not seem to meet the real needs of the small business sector.

C.7 -- it is recommended that financial incentives be linked to the creation of new jobs through the development of new facilities or the refurbishing or expansion of existing facilities.

The Sub-Committee concurred with and endorsed the recommendation of the Industry Development Sub-Committee: "that the CGOT with a small committee from DREE, provincial and territorial representations, FBDB, and representations of private tourism interests study the possible needs (as emerge from country-wide development strategy), the costs/benefits and ways and means of funding support for high priority projects in 'opportunity' areas".

C.8 -- the Sub-Committee commends the recent initiatives of the Minister of State for Small Business. As the new measures emerge from this activity, CGOT, provincial and territorial authorities and industry associations should work together to ensure that they are applicable to tourism and that they be given wide publicity within the tourism private sector.

C.9 -- in connection with the Small Business Loans Act, the limits should be raised to $250,000 (amount of loans outstanding) and $2,000,000.00 (gross revenue). There may be a problem of chartered banks requiring mortgages for a small business loan. They should accept a second mortgage as the loan is government guaranteed.

D. <u>Communications</u>

Small business is concerned about the bureaucratic process involved in the collection and dissemination of information that is necessary to the small business operator.

D.10 -- there is a need for a publication that would bring together in one place all of the information required by a prospective operator before starting a new business. This type of publication should be accompanied by a system of easier and simpler access to government information. The basic problem is where to go and whom to talk to.

E. <u>Duty-Free Shops - Highway Border Crossings</u>

The Sub-Committee was asked to review a proposal concerning the establishment of duty-free shops at highway border crossing locations. The establishment of these shops would extend to the automobile traveller the same facilities now available to air travellers and to road travellers entering Canada from the United States.

E.11 -- the Sub-Committee recommends that the proposal be given further study by a committee drawn from the appropriate federal and provincial government departments, provincial and national industry associations and potential suppliers of merchandise. The further study should include a detailed look at costs and benefits and at the ways and means of implementing that would ensure the small business community an opportunity for investment.

E.12 -- the study should also consider how the duty-free shops, if established, could function as currency exchange facilities.

7. <u>TRAVEL INDUSTRY AWARENESS</u>

The Sub-Committee makes the following recommendations:

A. <u>Concerning the CGOT</u>

A.1 -- that for the foreseeable future, the Canadian Government Office of Tourism (CGOT), Department of Industry, Trade and Commerce (IT&C), include in its overall advertising and publicity activities a program to emphasize the importance to Canadians of a friendly and courteous attitude to all visitors and travellers in our country. Funds for this program should be additional and not be obtained by the diversion of resources from CGOT's already strained marketing budget, which has been seriously eroded by the devaluation of the Canadian dollar and other inflationary pressures.

In making this recommendation, we are not implying that awareness programs should be the sole responsibility of CGOT. Current provincial and territorial governments and private sector associations' activities support our view, and we simply wish to record that the aforementioned activities should be maintained and integrated into both private sector and government tourism programs in Canada for an indefinite period.

A.2 -- that CGOT assist and support the public awareness initiatives of provincial and territorial tourism departments, and private sector organizations, by compiling all available information on these various activities and serving as a clearing house and disseminator for this material to assure that all parties concerned are aware of each other's projects. This compilation of information should include, whenever available, assessments and post-project research of the effectiveness of these programs.

A.3 -- it is further recommended that CGOT, in co-operation with provincial and territorial tourism departments, organize annual seminars, regionally, to keep the private sector of the tourism industry aware and up-to-date on all programs and forms of assistance in the fields of education, training and other incentives available from provincial and federal resources. In most instances this would not require organizing a completely new series of meetings, but could be largely achieved through presentations made at regular meetings of local branches of the various industry associations.

A.4 -- that CGOT continue to work closely with national associations in the private sector, e.g., the Tourism Industry Association of Canada, the Canadian Restaurant and Foodservices Association, etc., in support and assistance of the attitude and behavioural aspects of their respective manpower training and educational programs.

A.5 -- that for the duration of the depreciated Canadian dollar situation, CGOT spearhead the efforts at the federal level to ensure that American visitors receive "fair exchange" on their U.S. currency by:

- examining the feasibility of establishing currency exchange facilities at or immediately adjacent to major border crossing stations between the United States and Canada;

- continuing to emphasize in all its advertising and travel information circulated in the United States that prospective U.S. visitors to Canada exchange their U.S. currency for Canadian funds either prior to entering Canada or at a Canadian chartered bank as soon as possible after crossing the border.

A.6 -- that CGOT continue on an expanded basis to communicate the economic importance of tourism to other federal departments as it did in the current year with its seminars held in conjunction with the Canada Customs Training Program. The Sub-Committee recommends that these seminars be expanded to include other federal departments which have personnel who come into regular contact with the travelling public. In addition to Canada Customs, these would include Employment and Immigration, Parks Canada, Ministry of Transport and the Royal Canadian Mounted Police. As a supplement to these training activities, CGOT would provide editorial support material in the form of tourism information and economic data which can be used by federal agencies in their respective employee communications media.

A.7 -- that the Federal Minister of Industry, Trade and Commerce recommend to his provincial colleagues that they approach their respective Ministers of Education with a view to including the importance of tourism as an industry in the educational curricula at appropriate levels in the school systems in their respective jurisdictions. It should be noted that such changes would not, in the first instance, necessitate costly revisions in existing text books. It could be effectively accomplished by producing addenda to these texts and the utilization of other teaching aids such as audio/visual packages, travel films, and lectures and

seminars given by senior officials in the tourism industry from both private and public sectors.

B. Recommendations to Provincial and Territorial Governments

B.8 -- the Sub-Committee commends those provincial and territorial governments that have initiated awareness programs. It recommends that these programs be continued and expanded, where possible, to become a continuing element of their respective tourism promotion programs.

Other Recommendations

B.9 -- that provincial and territorial tourism departments provide motivation and support to the maximum extent possible to stimulate the efforts of the private sector in all its undertakings related to public awareness and attitudinal improvement.

B.10 -- that Provincial Ministers of Tourism exhort their colleagues in the Education portfolio to include tourism and its economic benefits to their respective regions in the educational curricula at the appropriate grade levels.

B.11 -- that for the duration of the depreciated status of the Canadian dollar, provincial and territorial tourism departments, in concert with federal and private sector initiatives, actively encourage the "fair exchange" philosophy for the handling of United States and other foreign currency.

C. Recommendations to Industry

The Sub-Committee acknowledges that many of the suggestions that it considered in its own deliberations on attitudinal behaviour and professional competence at the "front line" level in the hospitality industry will also be examined by the Sub-Committee dealing with manpower training. However, it still wishes to record its belief that the upgrading of service skills and attitude training are basic building blocks in the creation of a high quality Canadian tourism product. It also wishes to formally state that management has the obligation to support such programs and make them readily accessible to their personnel.

Specifically, the Sub-Committee makes the following recommendations to the private sector:

C.12 -- that the hospitality industry, through its associations such as the Tourism Industry Association of Canada, its provincial and territorial counterparts, and others such as the Canadian Restaurant and Foodservices Association and its respective provincial bodies, take vigorous initiatives with their local municipal governments, Chambers of Commerce, Junior Chambers of Commerce, service clubs, and appropriate representative groups from organized labour whose members are employed in the travel and tourism industry, to emphasize at the community level the importance of tourism to every Canadian's economic wellbeing. Inherent in this recommendation is that through municipal governments, the co-operation of law enforcement agencies be sought in displaying a courteous, hospitable attitude towards visitors. In areas where the RCMP fulfills the role of the local policing agency, elected civic officials should discuss this with officers of local detachments, but at the same time there is a responsibility for CGOT to communicate its interest to the appropriate officials at RCMP headquarters in Ottawa.

C.13 -- the subject of "fair exchange" rates on U.S. currency has been referred to in the recommendations made by the Sub-Committee to the Federal Government. However, it wishes to re-iterate the "fair exchange" policy should be a basic policy decision of all travel and tourism industry management. For the purposes of this paper, "fair exchange" is defined as being within 2 per cent of the rate being offered by the chartered banks. While there are indications that more attention is being given to this subject, patterns across the country, particularly in the rural recreational areas, are widely inconsistent. Local tourist and visitors associations and Chambers of Commerce are probably in the best position to bring

pressure to bear on their business colleagues to make "fair exchange" a basic element in their daily business practice. In some regions, visitors and convention bureaux have made it a practice during the tourism season to obtain the current U.S. dollar exchange rate from a local chartered bank and advise local radio and television stations as well as daily newspapers, if applicable, of the exchange rate. This serves the dual puryose of informing business operators of the exchange rate they should be giving, as well as informing U.S. visitors what rate of exchange they have a right to expect.

CONCLUSIONS

The Task Force believes that tourism is worth the proposals being put before governments in this Report. It freely admits that the industry, itself, can and must do much to improve itself. It commends its recommendations to the most careful and sympathetic consideration by governments. It believes that a positive response by governments will go a long way to arresting the erosion of entrepreneurship, the incentive factor, which it believes has diminished in large part because of constraints on tourism imposed by governments, if inadvertently and unwittingly.

It hopes that its proposals will be found realistic, reasonable and be implemented as soon as practicable. It pledges the industry "focal point" organizations to work with governments to these ends.

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G.D. Taylor	Assistant Director - Research - Planning & Research

LISTING OF BACKGROUND DOCUMENTATION;
ENCLOSURE OF A COPY OF "TOURISM: ECONOMIC PERFORMANCE"

A LIST OF BACKGROUND DOCUMENTATION PROVIDED TO THE TASK FORCE

- Announcement of the first meeting of Consultative Task Force Chairmen - a Department of Industry, Trade and Commerce News Release.

- Chairman's Statement of Disposition of Agenda Items - prepared as a result of a special meeting of Federal, Provincial and Territorial Ministers concerned with Tourism, Ottawa, January 31, 1978.

- Briefing Notes for Consultative Task Forces.

- Canada's Economy - Medium-Term Projections and Targets - February 1978 - a federal Department of Finance document.

- Tourism: Economic Performance - a Department of Industry, Trade and Commerce Discussion Paper (see a copy underleaf).

- Government Policies Constraining Canadian Tourism (Horizontal Issues) - prepared for a special meeting of Federal, Provincial and Territorial Ministers concerned with Tourism, Ottawa, January 31, 1978.

- Federal Government Instruments Available to Influence Tourism Industry Performance - a Canadian Government Office of Tourism descriptive document.

- CGOT and the Tourism Program - a descriptive booklet.

- Improving the Equity Financing Environment for Small Business in Canada - a Ministry of State (Small Business) discussion document.

DISCUSSION PAPER

TOURISM — ECONOMIC PERFORMANCE

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TOURISM — ECONOMIC PERFORMANCE

INTRODUCTION

The recent increase in Canada's international deficit in travel, particularly with the United States, has aroused concern. This study examines some of the factors that have contributed to this increased deficit. It finds that income and price factors have been especially significant since 1974 in bringing about the substantial increase in Canadian travel expenditures abroad and in the slower growth of travel expenditures by Americans in Canada. It suggests also that a number of federal and provincial policies may have adversely affected the competitive position of the Canadian tourist industry.

The effective performance of the Canadian tourist industry is also important because of its important role in the economies of all provinces. Various aspects of the Canadian tourist industry have been examined. Some aspects of the industry have not been covered in this report. These include changes in the nature of travel demand due to changes in taste or to changes in the composition of population and the question of whether the tourist industry is responding effectively to these changes in demand. For instance, this report has not considered such aspects of tourism's effectiveness as plant quality, the degree of intra-industry competition and marketing budgets. Nor does the paper treat the important social, as distinct from economic, aspects. It is also recognized that the value of tourism services is not always related to price and cost (i.e., economic factors).

OUTLINE

This report begins with an examination of the balance of payments performance of the tourist industry in the last two decades, dealing separately with the United States and the rest of the world. Attention is particularly focussed on the last three years when Canada's travel account with the United States has shown a deficit for the first time since 1961. Significant features of the travel expenditures of Canadian residents both in Canada and abroad and of the travel expenditures of nonresidents in Canada are then considered. The economic impact of both domestic and foreign travel on the Canadian economy as a whole and on the various regions is analyzed.

The report then examines relevant features of the Canadian tourist industry, its seasonality, its cost and price performance in relation to the cost and price performance of the Canadian economy in general and also in relation to other major industrial countries, most notably the United States. It considers the possible consequences for the Canadian tourist industry of a number of government policies at both the federal and provincial levels.

The final section of the report measures the impact of price and cost factors on the current Canadian travel deficit and suggests what is likely to be the future balance of payments performance, given the depreciation of the Canadian dollar. It identifies the general policy implications of this development.

CANADA'S INTERNATIONAL TRAVEL ACCOUNT

This section indicates that the deficit on Canada's travel account has risen sharply in the last three years to nearly $1.7 billion in 1977. After more than a decade of surpluses a deficit developed with the United States in 1975 which reached around $800 million in 1977. This section also shows that Canadians spend relatively much more in the United States than Americans spend in Canada.

TABLE 1

PER CAPITA INTERNATIONAL TRAVEL EXPENDITURES, 1970 AND 1975

	Per capita expenditures (U.S. $)		Compound growth rate (% per annum)
Country	**1970**	**1975**	
Canada	66.14	93.69	7.2
U.S.	19.11	30.23	9.6
W. Germany	41.10	137.51	27.3
France	20.82	58.33	22.9
Britain	16.67	34.33	15.5
OECD[1]	19.88	47.59	19.1

[1]Excludes Ireland.

It must first of all be recognized that, partly for reasons of geography, Canadians are major international travellers with per capita expenditures for international travel well above the average for other high-income countries. Indeed, a few years ago Canadian expenditures were the highest in the world. Now Canada has been surpassed by West Germany but is still about twice the average for OECD countries (see Table 1). The international travel expenditures for both Canada and the United States grew far more slowly than those of other industrial countries since 1970.

Moreover, just as in commodity trade, Canada's travel expenditures abroad are concentrated in the United States, standing at 63 per cent of the total in 1976. Similarly, 70 per cent of Canada's travel receipts in 1976 came from U.S. residents. The per capita travel expenditures of Canadians in the United States are far greater than those of Americans in Canada ($85.14 in 1976, compared to per capita expenditures of $6.37 of Americans in Canada).

Balance of Payments

In the last quarter century, there has been a consistent deficit in Canada's travel account with countries other than the United States, and four distinct periods in our travel account with the United States: a surplus up to 1952; ten years of deficits until 1962 and devaluation, then thirteen years of surpluses followed by the current period of mounting deficits which began in 1975 (see Table 2). It will be demonstrated later that there has been a close relationship between the balance in Canada's travel account with the United States and the Canadian dollar exchange rate.

TABLE 2

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS ON TRAVEL ACCOUNT, 1949–1977

	With the United States	With other countries (millions of dollars)	Total
1949	102	−10	92
1950	67	−18	49
1951	12	−18	−6
1952	−37	−29	−66
1953	−25	−38	−63
1954	−37	−47	−84
1955	−60	−61	−121
1956	−82	−79	−161
1957	−78	−84	−162
1958	−104	−89	−193
1959	−97	−110	−207
1960	−87	−120	−207
1961	−24	−136	−160
1962	93	−136	−43
1963	161	−137	24
1964	109	−159	−50
1965	112	−161	−49
1966	102	−162	−60
1967	537	−114	423
1968	182	−211	−29

TABLE 2 (Continued)

1969	72	−286	−214
1970	156	−372	−216
1971	194	−396	−202
1972	104	−338	−234
1973	87	−383	−296
1974	132	−416	−284
1975	−250	−477	−727
1976	−610	−581	−1,191
1977	−755	−886	−1,641

Trends in Foreign Travel — Canada and the United States

One of the best ways to analyze foreign travel expenditures is to relate it to personal disposable income, that is, the personal income that is available after paying direct taxes. In the past twenty years, about 2¼ per cent of the personal disposable income of Canadians has been spent abroad. This percentage has shown some fluctuation but the trend in the last decade up to 1975 was down. Since then, a sharp rise in the percentage of personal disposable income being spent abroad has occurred (see Table 3).

TABLE 3

EXTERNAL TRAVEL EXPENDITURES AS PERCENTAGE OF PERSONAL DISPOSABLE INCOME, CANADA, 1956-1977

Average annual of year	Expenditures in United States	Other countries	Total
	(per cent)		
1956-60	1.76	0.56	2.32
1961-65	1.47	0.66	2.13
1966-70	1.57	0.74	2.31
1971	1.50	0.92	2.42
1972	1.35	0.80	2.15
1973	1.35	0.84	2.19
1974	1.29	0.85	2.14
1975	1.47	0.88	2.35
1976	1.55	0.92	2.47

There have been distinctly different trends in Canadian travel expenditures abroad between those made in the United States and those in other countries. The proportion of personal disposable income of Canadians spent on travel in the United States trended downwards until 1975 while that spent in other countries has, as consistently, increased. The proportion of Canadian personal disposable income spent in the United States increased significantly in 1975 and 1976 but was still lower than in the latter 1960s and the latter 1950s.

There are some marked differences between the Canadian pattern and that of the United States. It has already been noted that Americans spend a much smaller proportion of their income on travel abroad than do Canadians. But contrary to the Canadian trend, this proportion rose in the 1950s and 1960s. There has been a distinct downward trend in the 1970s similar to that in Canada but without the upward turn in 1975 and 1976 (see Table 4).

TABLE 4

EXTERNAL TRAVEL EXPENDITURES AS PERCENTAGE OF PERSONAL DISPOSABLE INCOME, UNITED STATES, 1956–1977

Average Annual or Year	Expenditures in Canada	Other Countries	Total
	(per cent)		
1956–60	0.11	0.36	0.47
1961–65	0.13	0.38	0.51
1966–70	0.15	0.40	0.55
1971	0.15	0.44	0.59
1972	0.13	0.50	0.63
1973	0.13	0.48	0.61
1974	0.14	0.47	0.61
1975	0.12	0.47	0.59
1976	0.12	0.46	0.58

The proportion of U.S. personal disposable income being spent on travel in Canada has declined slightly in the 1970s but is still slightly higher than it was in the latter 1950s.

A more detailed analysis of Canada's international travel is even more revealing. It indicates that the long-term decline in the share of Canadian personal income being spent on travel in the United States was due not to a decline in the ratio of Canadians travelling to the United States[1] but to a decline in the proportion of income being spent (see Table 5). Moreover, the proportion of Canadians travelling abroad to countries other than the United States has increased far more sharply than the income data would suggest, having quadrupled since 1961. But the rise in the number of travellers overseas has been offset by a sharp decline in the proportion of income being spent on each trip.

Similar data on United States to Canada travel show a fairly stable pattern for both the ratio of travellers to population and of the ratio of expenditures per traveller to income (see Table 6).

RELATIONSHIP BETWEEN INTERNATIONAL AND DOMESTIC TRAVEL

This section shows that domestic travel by Canadians has grown more strongly over the 1970's than Canadian expenditures abroad but that there was a marked shift abroad in 1975 and 1976. This section also shows that Canadian expenditures abroad are much more centred on pleasure and recreation than are Canadian expenditures on domestic travel.

Canada

Total Expenditures

Data on foreign travel of Canadians are more complete than those for domestic travel. The first and only complete annual survey of domestic travel was undertaken in 1971[2] while annual and quarterly data on foreign travel have been prepared for many years. Similarly, estimates of trips and of expenditures by nonresidents in Canada have been published for many years.

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[1] Travellers to the United States for a period of less than one day have been excluded.

[2] This covered trips of 100 miles or more. Two additional partial surveys on domestic travel have been made, one on trips of 100 miles or more for the third quarter of 1974 and the other on trips of 50 miles or more for the second quarter of 1977. These two partial surveys collected data on number of trips but not on expenditures.

TABLE 5

CANADIAN TRAVEL PROPENSITY AND EXPENDITURE PER TRAVELLER IN RELATION TO INCOME 1961-1975 (FOR TRIPS OF MORE THAN ONE DAY)

	Canadian travellers as a percentage of Canadian population[1]		Expenditure per Canadian traveller as a percentage of Canadian GNP per Capita[2]	
	To United States	To Other Countries[3]	To United States	To Other Countries[3]
1961	30.0	1.5	3.4	31.1
1962	26.6	1.7	3.2	26.6
1963	26.3	1.8	2.7	24.2
1964	26.7	2.0	3.1	23.1
1965	31.8	2.3	2.7	20.2
1966	36.3	2.5	2.5	18.3
1967	38.2	2.6	2.2	16.5
1968	38.2	3.1	2.2	13.8
1969	41.0	4.1	2.3	12.7
1970	42.2	5.2	2.2	12.2
1971	42.1	5.5	2.0	10.9
1972	39.6	5.2	1.9	10.2
1973	38.9	6.2	1.9	9.2
1974	37.6	6.4	1.8	9.0
1975	42.4	6.8	1.9	9.3
1976				

Source: Department of Finance
[1] Crews are excluded post 1971
[2] Expenditure per crew member is excluded post 1971
[3] Includes Hawaii

There is also a problem of comparability. There are many categories of domestic travel (to and from work, for purposes of shopping, recreation or other needs, intra-urban, inter-urban, overnight trips, single day trips, etc.) and no one or combination of them precisely matches the category of foreign travel by Canadians. For years other than 1971, this report will use the estimates of domestic travel expenditures by Canadians prepared by the Office of Tourism. These cover travel expenditures by Canadians for trips of 25 miles or more for purposes other than employment. They include both single day and overnight trips.

Travel expenditures by Canadians in Canada are thus estimated at $7.3 billion in 1976 compared to Canadian travel expenditures abroad of $3.1 billion (see Table 7).

From 1971 to 1976, Canadian travel expenditures in Canada are estimated to have increased faster than Canadian foreign travel expenditures, by 128 per cent compared to 116 per cent. It is estimated that Canadian domestic travel expenditures increased faster until the end of 1974 after which foreign travel expenditures by Canadians sharply accelerated while domestic travel expenditures grew more slowly.

TABLE 6

UNITED STATES TRAVEL PROPENSITY AND EXPENDITURES
PER TRAVELLER IN RELATION TO INCOME TRAVEL TO CANADA, 1961-1975
(FOR TRIPS OF MORE THAN ONE DAY)

	U.S. residents travelling in Canada as a percentage of U.S. civilian population[1]	Expenditure per U.S. traveller in Canada as a percentage of U.S. GNP per capita[2]
1961	5.2	1.4
1962	5.5	1.5
1963	5.6	1.5
1964	5.9	1.4
1965	6.2	1.4
1966	6.6	1.3
1967	7.9	1.6
1968	5.7	1.5
1969	5.9	1.5
1970	6.4	1.5
1971	6.7	1.4
1972	6.3	1.2
1973	6.5	1.2
1974	6.1	1.4
1975	5.9	1.3

Source: Canada Department of Finance
[1]Crews are excluded post 1971
[2]Expenditure per crew member is excluded post 1971

On the same basis, the total magnitude of travel expenditures in Canada in 1976 is estimated at $9.2 billion, composed of $7.3 billion by residents and $1.9 billion by nonresidents (see Table 8). This estimate is heavily dependent on the definition of tourism employed. If only trips of 100 miles or more are included, domestic travel expenditures for 1976 would be estimated at around $4.5 billion.

Domestic travel expenditures by Canadians have risen as a share of Gross National Expenditures in the 1970s, rising to a peak of four per cent in 1975 but travel expenditures by nonresidents have been declining, falling to only about one per cent in 1976.

Purposes of Travel

The purposes of international travel by Canadians differ significantly from domestic travel. Business travel and visiting friends and relatives are less important components of international travel than of domestic travel amounting to only 10 and 22 per cent of trips respectively for foreign travel compared to 17[1] and 39 per cent for domestic travel according to the 1971 travel survey (see Tables 9 and 10).

[1]Data from the 1974 travel survey suggest that business travel may even have been understated in the 1971 travel survey.

TABLE 7

TRAVEL EXPENDITURES BY CANADIAN RESIDENTS

	In foreign countries (millions of dollars)	In Canada (millions of dollars)	In foreign countries (%) Percentage change from preceding year	In Canada (%) Percentage change from preceding year
1971	1,448	3,200	–	–
1972	1,464	3,878	1.1	21.2
1973	1,742	4,700	19.0	21.1
1974	1,978	5,696	13.5	21.2
1975	2,542	6,700	28.5	17.6
1976	3,121	7,300	22.8	9.0
Percentage change from 1971–76			115.5	128.1

TABLE 8

TRAVEL EXPENDITURES IN CANADA, AND IN RELATION TO GNE

	Residents (millions of dollars)	Non-Residents (millions of dollars)	Total (millions of dollars)	Residents (per cent of GNE)	Non-Residents (per cent of GNE)	Total (per cent of GNE)
1971	3,200	1,246	4,446	3.39	1.32	4.71
1972	3,878	1,230	5,108	3.69	1.17	4.85
1973	4,700	1,446	6,146	3.80	1.17	4.97
1974	5,694	1,694	7,390	3.87	1.15	5.02
1975	6,700	1,815	8,515	4.05	1.10	5.15
1976	7,300	1,930	9,230	3.84	1.02	4.86

TABLE 9

TRAVEL EXPENDITURES BY PURPOSES OF TRIP, CANADA, 1971 TRAVEL SURVEY
(Trips of 100 miles or more)

Purpose	Millions of dollars	Person-trips (thousands)	Expenditures (per cent of total)	Person-trips (per cent of total)
Business and convention	507	7,180	27.5	16.5
Visiting friends and relatives	527	17,164	28.6	39.4
Outdoor recreation	174	5,653	9.4	13.0
Sightseeing	158	2,979	8.6	6.8
Entertainment and indoor sports	46	1,220	2.5	2.8
Shopping	57	855	3.1	2.0
Personal	166	3,982	9.0	9.1
Other	207	4,513	11.2	10.4
Total	1,843	43,547	100.0	100.0

TABLE 10

PERCENTAGE DISTRIBUTION OF CANADIAN RESIDENTS TRAVELLING ABROAD BY PURPOSE OF TRIP, 1974, 1975

	1974 (Per cent of trips)	1975 (Per cent of trips)
Business, convention and employment	10.0	10.1
Visiting friends and relatives	24.5	22.2
Other pleasure recreation or holiday	60.3	60.3
Other	5.2	7.4
Total	100.0	100.0

TABLE 10a

TRAVEL EXPENDITURES BY U.S. RESIDENTS(1

	In Foreign Countries (billions of dollars)	In U.S. (billions of dollars)	In Foreign Countries Percentage Change from Preceding Year (%)	In U.S. Percentage Change from Preceding Year (%)
1972	5.0	46.1	-	-
1973	5.5	n.a.	10	-
1974	6.0	60.3	9	-
1975	6.4	75.2	7	25
1976	6.9	98.5	8	31

(1 For Trips of 100 miles or more

United States

United States residents spend much more of their travel dollar at home than do Canadians. Estimates of domestic travel expenditures by Americans are made for trips of 100 miles or more (see Table 10a) but if these were adjusted to be more comparable to the Canadian data for trips of 25 miles or more we would find that United States residents in 1976 spent less than 5 per cent of their total travel expenditures abroad compared to 30 per cent for Canadians.

It is also to be noted that domestic travel expenditures by U.S. residents have increased much more strongly than expenditures abroad in 1975 and 1976. This is the reverse of the situation in Canada.

REGIONAL DIMENSIONS OF TRAVEL

This section shows that tourism is a widely dispersed industry in Canada playing a significant part in the economy of every province but is somewhat more important in the Atlantic Region than any other province. It also shows that residents of Ontario have generally spent more in other provinces than residents of other provinces spend in Ontario. Other provinces have tended to be net recipients of domestic travel expenditures.

Total Travel Expenditures

Of the industries which play a significant role in Canada's international trade, tourism is the most widely dispersed, playing a significant part in the economy of every province. Indeed, apart from Prince Edward Island where travel expenditures are estimated to have made up to 20 per cent of GDP in 1976, the range as a proportion GDP was from 3.9 per cent in Alberta to 7.0 per cent in Nova Scotia and Manitoba (see Table 11). What is interesting to note is the apparent eastward displacement of the importance of tourism in the economy of each province. Between 1971 and 1976, indeed, travel expenditures represented an increased proportion of GDP for the provinces of the Atlantic Region (with the exception of New Brunswick) and of Central Canada, and for Manitoba, but a decreased proportion for the three most westerly provinces.

TABLE 11

TRAVEL EXPENDITURES(1 BY PROVINCE AS PER CENT OF GROSS DOMESTIC PRODUCT, 1971

	Travel Expenditures (millions of dollars)		Travel Expenditures per cent of GDP at factor cost	
	1971	1976e	1971	1976e
Newfoundland	78	166	6.7	6.9
Prince Edward Island	41	83	18.0	19.8
Nova Scotia	138	286	6.6	7.0
New Brunswick	95	194	6.0	5.8
Québec	885	1,846	4.4	4.6
Ontario	1,767	3,674	5.1	5.4
Manitoba	229	480	6.5	7.0
Saskatchewan	217	452	6.8	6.0
Alberta	350	729	4.9	3.9
British Columbia and Yukon and North West Territories	635	1,320	6.8	6.6
Canada	4,446	9,230	5.4	5.4

eEstimates based on extrapolation of inter-provincial tourist flow patterns of 1971 and 1976, and on estimates of GDP made by the Conference Board in Canada.

(1Domestic travel expenditures on trips of 25 miles or more plus estimated provincial distribution of expenditures by nonresidents.

International Travel

For a recent year, 1975, when Canada's international travel account was in deficit, the estimated international travel account of the Atlantic region showed a slight surplus; all other regions were in deficit. Saskatchewan, Manitoba, Alberta and Quebec showed, in that order, the relatively greatest deficits (expressed as a proportion of expenditures abroad by Canadian residents). See Tables 12 and 13.

TABLE 12

EXPENDITURES[1] BY CANADIANS ABROAD BY PROVINCE OF RESIDENCE, 1975

	United States	Other countries (millions of dollars)	Total	United States per cent of total (%)
Atlantic	54	25	79	68.4
Québec	271	177	448	60.5
Ontario	499	351	850	58.7
Manitoba	53	24	77	66.8
Saskatchewan	29	14	43	67.4
Alberta	91	48	139	65.5
British Columbia	173	77	250	69.2
Total	1,171	717	1,888	62.0

[1]After a stay of one or more nights

TABLE 13

EXPENDITURES[1] BY INTERNATIONAL TOURISTS IN CANADA, 1975

	United States	Other countries (millions of dollars)	Total	United States per cent of total (%)
Atlantic	69	14	83	83.1
Québec	219	65	284	77.1
Ontario	474	145	619	76.6
Manitoba	28	8	36	77.8
Saskatchewan	10	3	13	76.9
Alberta	62	25	87	71.3
British Columbia	154	46	200	77.0
Canada	1,104	317	1,421	77.7

[1]For one or more nights

There are other differences among the provinces. For instance, only about 60 per cent of travel expenditures abroad by residents of Ontario and Quebec were made in the United States. For other provinces, the proportion was closer to 70 per cent (see Table 12).

On the other hand, the proportion of foreign tourist expenditures coming from the United States has been surprisingly uniform, being slightly lower in Alberta than the national average and slightly higher in the Atlantic region (see Table 13).

Domestic Travel

The importance of the tourist industry to the Atlantic region as a net earner of income is again indicated by data on domestic travel expenditures from the 1971 travel survey. The survey indicated that the Atlantic region received about twice the amount spent on travel by its residents in other provinces. But British Columbia and the Prairie region were also net recipients of travel expenditures. Ontario had the only deficit in domestic travel expenditures while Quebec was in approximate balance (see Table 14).

TABLE 14

TRAVEL EXPENDITURES BY PROVINCE, TRAVEL SURVEY 1971
(Trips of 100 miles or more)

	Expenditures of residents in other parts of Canada	Receipts from visiting residents of other provinces	Net flow
	(millions of dollars)		
Newfoundland	5.7	6.6	0.9
Prince Edward Island	6.4	11.4	5.0
Nova Scotia	13.0	23.4	10.4
New Brunswick	13.6	16.3	2.7
Québec	54.4	57.9	3.5
Ontario	125.1	60.2	−64.9
Manitoba	25.4	30.1	4.7
Saskatchewan	34.5	25.0	−9.5
Alberta	44.6	60.9	16.3
British Columbia	40.2	66.4	26.2

DETERMINANTS OF TOURISM'S PERFORMANCE

This section shows that the price and cost performance of the Canadian economy began to grow markedly out of line with the United States in 1974 with a particularly wide divergence in 1976. This was also true of wage costs in sectors of the tourist industry. Travel prices as a whole increased considerably more in Canada than in the United States. This section also indicates that our cost and price performance vis-à-vis other countries has generally been better in the same period.

Nature of the Tourist Industry and Travel Expenditures

The tourist industry may be defined as those industrial establishments which provide goods and services to "tourists", that is to travellers who go a certain distance from home for purposes other than employment. Therefore it is clear that the industry includes such establishments as hotels, restaurants, taverns, buses, airlines, service stations and museums and such forms of capital investment as highways, airports and parks. It may also be taken to include features of the natural environment. It is equally clear that many of these establishments and capital goods also serve nontourists. But this is not important as long as the price and cost factors affect tourists and nontourists to the same extent.

On the cost side, three items are of dominant consideration for the tourist; transportation, accommodation (for those who stay overnight) and restaurant and tavern services. Travel surveys conducted in both Canada and the United

States indicate that transportation comprised more than one-third of travel expenditures with gasoline for private automobiles making up 60 per cent of transportation costs. Restaurant and tavern services made up about 20 per cent of travel expenditures while accommodation made up 15 per cent. Recreational services and goods and apparel purchases and cleaning were distinctly secondary with about 10 per cent each.

Travel is a heavy user of both capital and labour. Major capital investments for travellers are made in highways and airports, airplanes, trains and buses, hotels, restaurants and museums. The use of these facilities has a high labour content.

Important components of the travel complex are supplied by governments with or without direct user charges but the rest are typically operated commercially. In Canada, the tourist industry is made up of 80,000 inter-related, but competitive businesses, most of them small. It includes, among other things:

190,000	hotel and resort rooms,
78,000	motel rooms,
29,000	cabins,
23,000	outfitters' units (and commensurate number of campground capacities),
2,000	travel agents,
100	tour wholesalers and operators,
1,500	or so events and attractions,
43,000	eating places,
2	national airlines,
5	regional air carriers,
200	local air service operators,
68	bus companies,
2	national railway companies,
8	regional railway lines,
50	shipping lines,
8	major car rental firms.

These tourist-related industries employed close to 700,000 people in 1971 out of a total employment in Canada of 8,117,000 (see Table 15). In 1976, tourist-related employment is estimated to have reached around 830,000 people, a five-year increase of 20.5 per cent, which was somewhat faster than in the increase of 17.5 per cent in total employment which is estimated at 9,526,000 in 1976.

TABLE 15

EMPLOYMENT IN SELECTED INDUSTRY GROUPS RELATED TO TRAVEL, TOURISM AND RECREATION, 1971(1) and 1976(2)

	1971	Estimated 1976
Accommodation and food services	331,500	408,000
Amusement and recreation services	75,065	109,000
Service stations	74,545	92,000
Transportation, communication and other utilities	98,265	120,000
Construction	65,300	63,000
Miscellaneous manufacturing	9,970	11,000
Transportation equipment	32,080	25,000
TOTAL	686,725	828,000

Source: (1 Census of Canada
(2 Estimates based on the application of 1971 ratios of Census over Employment survey data to the employment figures obtained from the monthly survey of employment in larger establishments for the year 1976.

Of course, these total employment data by industry are not generated solely by travel and tourism activities. This is especially true in restaurants and taverns which represented about 60 per cent of total employment in the accommodation and food services sector in 1971, and where a large proportion of employment comes from nontourist activities.

Cost and Price Performance — vis-à-vis the United States

The competitive performance of the Canadian tourist industry has been clearly affected by price and cost developments in the Canadian economy in general, particularly in relation to the United States. In 1974 overall labour costs in Canada began to grow sharply out of line with those in the United States with a gap of about four per cent which widened by an additional eight per cent in 1975 and a further five per cent in 1976. Thus, in three years, because of the cumulative effect, labour costs in Canada on the average increased 21 per cent more than in the United States. Exchange rate movements in the period slightly worsened the Canadian position (see Table 16).

TABLE 16

PERCENTAGE INCREASE IN UNIT LABOUR COSTS — THE ECONOMY

	National currency		U.S. dollars	
	Canada	U.S.	Canada	U.S.
1971	3.2	3.6	6.7	3.6
1972	5.2	4.0	7.3	4.0
1973	7.8	6.0	7.8	6.0
1974	15.8	11.5	18.4	11.5
1975	15.5	7.6	11.1	7.6
1976	9.7	5.0	13.2	5.0
1977	8.5	6.5	1.5	6.5
1973–76	46.7	26.0	48.9	26.0

In 1977, there was only a slight further deterioration in the Canadian position. After allowing for the depreciation of the Canadian dollar there was in fact a considerable improvement, leaving the cost deterioration at about 18 per cent since 1973. A further improvement will show up in 1978 but, on the average, labour costs in the Canadian economy would still be 12 to 15 per cent worse than in the United States in 1978.

What is the impact on the tourist industry specifically? It may well be more severe than these data for the economy as a whole suggest. The cost deterioration for manufacturing, for instance, was less severe than that for the economy as a whole. By 1978 the depreciation of the Canadian dollar will probably restore Canadian manufacturing to about the same cost position it held in relation to U.S. manufacturing in 1973. This implies that the whole service sector in Canada of which the tourist industry is an integral part has, in the period 1973–77, increased its wage costs about 20 per cent faster than in the United States, and that the margin may still be between 15 and 18 per cent in 1978.

This is supported by wage and salary data for hotels, restaurants and taverns. From 1973 to 1976, average hourly earnings in Canadian hotels, restaurants and taverns increased by 53 per cent compared to 23 to 26 per cent for the United States. In 1977, the increase in average hourly earnings has even been slightly less than in the United States in national currency terms. After depreciation of the Canadian dollar, there has been about a 10 per cent improvement during the year. But this still leaves the Canadian wage cost position vis-à-vis the United States about 20 per cent higher than it was in 1973 (see Table 17).

It should be emphasized that nonwage costs for employees are significantly larger in the United States than in Canada. A confidential study undertaken for the department indicates that employer payments in hotels and restaurants for such costs as unemployment insurance, hospital benefits and social security amounted to about 18 per cent of wage costs in New York State and 26 per cent in Ohio compared to eight per cent in Ontario and five per cent in Quebec.

TABLE 17

AVERAGE HOURLY EARNINGS IN TOURIST-RELATED INDUSTRIES

	CANADA Hotels, restaurants and taverns		UNITED STATES Hotels, tourist courts and motels	UNITED STATES Eating and drinking places
	$ Canada	$ U.S.		
1970	1.75	1.67	1.97	1.86
1971	1.95	1.93	2.13	1.96
1972	2.08	2.10	2.27	2.03
1973	2.30	2.30	2.40	2.15
1974	2.65	2.71	2.62	2.34
1975	3.08	3.03	2.81	2.50
1976	3.51	3.56	3.03	2.64
1977 (Aug.)	3.80	3.54	3.20	2.89
Percentage Increases		(%)		
1970–73	31.4	37.7	21.8	15.6
1973–76	52.6	54.8	26.2	22.8
Aug. 76 – Aug. 77	7.6	–1.1	7.4	9.9

TABLE 18

AVERAGE HOURLY EARNINGS — CONSTRUCTION, 1970–77

	Canada	U.S.
	(dollars–national currency)	
1970	4.21	5.24
1971	4.75	5.69
1972	5.15	6.03
1973	5.66	6.37
1974	6.43	6.75
1975	7.53	7.35
1976	8.68	7.74
1977 (August)	8.57	8.08
Percentage increases	(%)	
1970–73	34.4	21.6
1973–76	53.4	20.6
Aug. 76 – Aug. 77	14.9	4.4

A similar cost deterioration has occurred in the construction industry which is important for hotels and restaurants. Average hourly earnings in construction had increased faster in Canada from 1970 to 1973 but from 1973 to 1976 they increased more than twice as fast in Canada (53 per cent compared to 21 per cent in the United States). Thus, in only three years, a disparity of 32 per cent emerged (see Table 18). Moreover, the rate of wage inflation in construction has not decelerated in Canada in 1977 contrary to what has happened in hotels and restaurants.

A more favourable picture emerges for intercity transportation wage rates, where for the entire period from 1970 to 1976 average weekly earnings in Canada increased only 14 per cent more than in the United States.

These differentials in the rates of increase of tourist-related wages in Canada and the United States are not fully reflected in prices. A roughly comparable Travel Price Index shows that from 1973 to 1976 travel prices increased by 41 per cent in Canada compared to 31 per cent in the United States, a difference of only 10 per cent compared to more substantial differences in wage rate increases (see Table 19).

TABLE 19

INCREASES IN TRAVEL PRICES, CANADA AND UNITED STATES 1973–76

	Canada	United States
Consumer Price Index	32.1	28.1
Travel Price Index(1	41.2	30.6
Auto operation	46.6	
Plane fares	46.4	
Train fares	49.3	
Bus fares	24.6	
Meals and beverages in restaurants	47.2	
Accommodation(1	n.a.	
Gasoline	48.3	50.7
Motor Oil	34.7	24.9

Source: Partly from Statistics Canada confidential report.
(1 In the Travel Price Index, the Consumer Price Index is used for accommodation prices in the absence of a better indication of price.

While the Travel Price Index in the United States has increased roughly in line with consumer prices in general, in Canada there has been a significantly faster rate of increase in the Travel Price Index than in consumer prices in general. This is due to the high rates in increase in all transportation costs with the exception of bus fares and in cost of meals and beverages in restaurants.

More detail on changes in airline fares is provided in Table 20. This shows the considerably higher increases in airline economy fares within Canada than within the United States or Europe. It also shows that Canadian domestic rates have increased faster than Canada-United States rates (see Table 20).

Cost and Price Performance — vis-à-vis Other Countries

Canada's price performance in respect to other industrial countries has been distinctly better than in relation to the United States. Using consumer prices as a proxy for travel prices, it is indicated that only in West Germany would costs for tourists have increased more slowly than in Canada (see Table 21).

In some instances these differences have been at least partially offset by exchange rate movements which have been particularly large in the case of Italy and Britain.

Seasonality of Canadian Tourism

Canadian tourism is known for its high seasonality, which means that there is appreciable underutilization during periods of low activity that results in poor productivity performance. Seasonality, however, also is an opportunity for governments who could rectify a situation for which they are partly responsible — that of the institutionalization of seasonal patterns in vacation habits. The 1971 travel survey showed that of non-business domestic tourism, approximately 50 per cent was spent in the third quarter of the year with 14 per cent in the first quarter, 20 per cent in the second and 16 per cent in the fourth. A compensating factor was expenditures for business and convention purposes which were quite uniform throughout the year.

TABLE 20

CHANGES IN AIRLINE ECONOMY FARES* JANUARY 1973 TO DECEMBER 1976

Route-Groups	*Per cent increases*	
Within Canada		53.4[1]
Québec-Toronto	68.4	
Regina-Victoria	50.8	
Ottawa-Saskatchewan	48.4	
Toronto-Vancouver	49.2	
Halifax-Vancouver	50.0	
Canada-U.S.		27.0[1]
Toronto-Chicago	41.2	
Vancouver-San Francisco	29.8	
Montréal-Miami	23.4	
Toronto-Los Angeles	24.0	
Vancouver-Honolulu	16.6	
Within the U.S.		26.2[1]
Chicago-Pittsburgh	39.2	
Chicago-Denver	25.2	
New York-Denver	21.2	
New York-San Francisco	19.2	
Canada-Mexico/Caribbean		32.7[1]
Montréal-Nassau	42.7	
Toronto-Antigua	42.1	
Vancouver-Mexico City	13.4	
Canada-Europe		50.3[1]
Halifax-London	57.7	
Toronto-Frankfurt	50.4	
Edmonton-Amsterdam	42.8	
Within Europe		21.3[1]
London-Geneva	23.8	
London-Istanbul	18.7	

Source: CGOT - Passenger Air Transportation and Tourism in Canada
[1]Unweighted averages
*For scheduled services/round trip economy fares

TABLE 21

PERCENTAGE INCREASE IN CONSUMER PRICES, 1970-76

	Canada	France	Germany	Italy	Britain	Japan
1970-73	15.9	19.9	18.8	22.8	28.0	24.0
1973-76	32.1	39.2	18.5	62.6	67.8	52.1

On the other hand, international travel to Canada is even more seasonal than nonbusiness residential tourism with only nine per cent in the first quarter, 24 per cent in the second quarter, 52 per cent in the third and 15 per cent in the fourth as measured by 1971 data (see Table 22).

TABLE 22

TOURISM EXPENDITURES IN CANADA, BY QUARTERS, 1971

Residents	1Q	2Q	3Q (millions of dollars)	4Q	Total
Business and convention	120[1]	139[1]	132[1]	116[1]	507
Nonbusiness	191[1]	272	659	214	1,336
Total residents	311	411	791	330	1,843
Nonresidents	118	297	644	187	1,246
TOTAL	429	708	1,435	517	3,089
PERCENTAGE DISTRIBUTION BY QUARTER					
Residents					
Business and convention	23.7	27.4	26.0	22.9	100.0
Nonbusiness	14.3	20.4	49.3	16.0	100.0
Total residents	16.9	22.3	42.9	17.9	100.0
Nonresidents	9.5	23.8	51.7	15.0	100.0
TOTAL	13.9	22.9	46.5	16.7	100.0

[1]Data subject to substantial sampling error

The seasonality of nonresident tourism in Canada has changed little in the last six years, a fact which suggests that attempts at encouraging winter travel to Canada have not met with success (see Table 23).

TABLE 23

SEASONALITY OF NONRESIDENT TOURISM EXPENDITURES IN CANADA, 1971-76

(percentage distribution)

	1Q	2Q	3Q	4Q	Total
1971	9.5	23.8	51.7	15.0	100.0
1972	8.5	24.2	51.3	15.9	100.0
1973	9.1	24.8	50.6	15.6	100.0
1974	9.4	25.6	49.4	15.6	100.0
1975	9.6	25.1	50.1	15.2	100.0
1976	9.5	24.8	50.8	14.6	100.0

This seasonality of travel results in a pronounced seasonal pattern in employment. For example, in the industry group "Accommodation and Food Services", employment of both full-time and part-time employees reaches a peak in July, with the months of lowest employment being January and February. The difference between the two is about 21 per cent of total employment. The same phenomenon exists in other tourist related industries such as amusement and recreation services.

Related to the seasonality of employment is the high incidence of part-time employment in major tourist related industries. Part-time employment makes up about 40 per cent of total employment in amusement and recreation services and 27 per cent in accommodation and food services (see Table 24).

TABLE 24

EMPLOYMENT IN ACCOMMODATION, FOOD AND RECREATIONAL SERVICES 1971-72

Accommodation and food services	
— Full-time employees	211,141
— Part-time and casual employees	77,560
TOTAL	288,701
Amusement and recreational services	
— Full-time employees	36,144
— Part-time and casual employees	28,286
TOTAL	64,430

IMPACT OF SELECTED POLICIES ON TOURISM

This section indicates: (1) that minimum wages in Canada have increased much faster than in the U.S., (2) that federal sales taxes on alcoholic beverages are considerably higher in Canada than in the U.S., (3) that provincial sales taxes are on the average 3 to 4 per cent higher than in the U.S., (4) that municipal property taxes are typically higher in large Canadian cities than in the U.S., (5) that gasoline taxes are higher in Canada, (6) that there have been larger increases in the last four years in airline excursion fares in Canada than in the U.S.

Among the variety of government policies which exert an influence on the loosely-defined tourism industry, four are particularly important either in terms of the cost structure of the industry or the prices charged to the consumers, or both. These are minimum wage policy, taxation policy, energy policy and air transportation policy.

Minimum Wage Policy

The current operations of many components of the tourism industry are labour-intensive. Furthermore, many sectors of the industry pay relatively low wages and are largely composed of small businesses. Nevertheless, there are sectors such as air transport which pay among the highest wages of any industry. Moreover, even where wages are relatively low or where employment is part-time, the industry provides useful opportunities for people who might otherwise remain unemployed. It is suggested that minimum wage legislations will have, overall, a significant impact on the cost structure of the industry.

Indeed, various studies indicate that hotels, restaurants and taverns have high proportions of employees earning below or just slightly more than the minimum wage. For instance, a federal study in 1966 estimated that 70 per cent of the work force in hotels under federal jurisdiction was being paid the federal minimum wage or slightly more, compared to five per cent and 10 per cent for workers in air and water transportation respectively. A study conducted for the government of Ontario in 1967 indicated that industries in the service sector, particularly hotels, restaurants and taverns, would be most severely affected by an increase in the provincial minimum wage. It was calculated that 65 per cent of the employees in that industry would have been directly affected by the proposed minimum wage in that year. Another study carried out for the government of Manitoba yielded the same conclusions; it was estimated that 53 per cent of the employees in hotels, motels, restaurants and taverns would be directly affected by the proposed increase in the minimum wage in 1970.

Minimum wages in Canada have sharply outpaced those in the United States in recent years. The Canadian federal minimum wage which was 12 per cent below the United States rate in 1967 was 26 per cent above it in 1977 (see Table 25). During this period, the Canadian federal minimum wage grew at an annual compound rate of 8.8 per cent, while the rate was significantly lower in the U.S. at 6.1 per cent.

About 70 per cent of the work force in the U.S. comes under federal jurisdiction and the federal minimum wage is therefore the most important. In Canada, between five and eight per cent of the Canadian work force is under federal jurisdiction.

It is provincial minimum wage legislation in Canada which has the most significant impact on the tourist industry. In the last ten years provincial minimum wages, without exception, have increased even more rapidly than federal minimum wages (see Table 26). The federal minimum wage, which was the highest in 1965 when it was originally established, has now been surpassed by those in the four Western provinces and Québec. On the other hand,

TABLE 25

FEDERAL MINIMUM WAGE RATES PER HOUR
CANADA AND UNITED STATES
1967–1977

	Canada (Can. dollar)	United States (U.S. dollar)
1967	1.25	1.40
1968	1.25	1.60
1969	1.25	1.60
1970	1.65	1.60
1971	1.75	1.60
1972	1.90	1.60
1973	1.90	1.60
1974	2.20	2.00
1975	2.60	2.10
1976	2.90	2.30
1977	2.90	2.30

TABLE 26

PROVINCIAL MINIMUM WAGE RATES PER HOUR
1967 and 1977
$

	1967		1977	Annual average growth rates (per cent)
		(dollars)		
Federal	1.25		2.90	8.8
Newfoundland	.70		2.50	13.6
Prince Edward Island	1.10		2.70	9.4
Nova Scotia	1.10		2.75	9.6
New Brunswick	.90		2.80	12.0
Québec	1.05		3.15	11.6
Ontario	1.00		2.65	10.2
Manitoba	1.10		2.95	10.4
Saskatchewan	1.00		3.00	11.6
Alberta	1.15		3.00	10.1
British Columbia	1.25		3.00	9.2

in the United States only a few states have minimum wages which exceed the federal rate. All provinces in Canada, even low-income provinces like Newfoundland and Prince Edward Island, have minimum wages that exceed the federal minimum wage in the United States. Certain provinces, like Québec, had in 1977 a wage differential as high as 85 cents. As of January 1, 1978, this differential will narrow somewhat, to 62 cents, as the U.S. federal rate will be increased to $2.65 per hour, while the rate in Québec will be increased to $3.27 per hour. (These rates apply to adults. There are, in general, lower rates for students in both Canada and the United States. Also, there are in many cases special lower rates for employees in the food serving industry. These special rates are not believed to reduce the disparity between Canadian and U.S. rates).

The minimum wage level itself does not indicate the full extent of the wage disadvantage under which some portions of the Canadian tourist industry labour in comparison with their United States neighbours. In the United States, federal legislation and most states have tip differential clauses which allow for payments as much as 50 per cent below the minimum wage. In Canada, only two provinces — Québec and Ontario — provide this type of tip differential adjustment in their wage scale, but only up to 10 per cent[1]. The importance of this clause cannot be ignored. It is estimated that about 30 per cent of employees in Canada's restaurants and hotels are involved in serving food and beverages and are generally receiving the minimum wage but, in addition, receive tips which in many cases are substantial.

There has been a significant rise in the ratio of the provincial minimum wage to the average hourly earnings in hotels, restaurants and taverns since the mid-1960s, although in a few provinces this ratio has declined since 1970. The level of the federal minimum wage in relation to average hourly earnings in these industries has declined but it is no longer operative for hotels, restaurants and taverns (see Table 27). It should be noted that the data on hourly earnings are from a survey covering establishments with twenty or more employees. In smaller establishments, hourly earnings may well be less, meaning that the ratio of the minimum wage to the hourly earnings would be higher.

Finally, small businesses in the U.S. are exempted from paying the federal minimum wage. At present, a small business, as defined for the purpose of the law, is one with annual sales of less than $250,000; by the end of 1981, the limit will be raised to $362,500. Since tourism includes a great number of small enterprises, the exemption provides a substantial advantage to the U.S. industry as no such exemption is available in Canada.

TABLE 27

MINIMUM WAGE RATE PER HOUR AS A PERCENTAGE OF AVERAGE HOURLY EARNINGS IN HOTELS, RESTAURANTS AND TAVERNS FOR SELECTED YEARS

Area of jurisdiction[1]	1965	1970 (Per cent)	1975
Canada[2]	102.5	94.3	84.4
Québec	77.3	88.6	96.9
Ontario	80.6	86.7	81.9
Manitoba	73.9	88.8	88.1
Saskatchewan	79.8	79.6	83.6
Alberta	80.0	84.2	80.6
British Columbia	64.9	70.4	71.6

[1] Data on hourly earnings are not available separately for the Maritime Provinces
[2] Federal rate compared to average hourly earnings in Canada

Tax Policies

Federal, provincial and municipal taxes bear somewhat more heavily on the tourist industry in Canada than do their American counterparts on the United States' industry. With the exception of Alberta, provincial sales taxes would appear generally to be three to four per cent higher in Canada than in the United States. Municipal tax rates per hotel room are also typically higher than in the United States. Gasoline taxes at the federal and provincial levels are higher

[1] Québec did not increase the minimum wage for tipped employees on January 1, 1978. The tip differential in that province is now 20 per cent.

than in the United States. Provincial liquor commissions and federal excise taxes combine to make the price of alcoholic beverages somewhat higher in Canada than in the United States. In general, the several levels of government have made their separate tax decisions without taking account of the total impact on the tourist industry.

Sales taxes

The Canadian federal manufacturers' sales tax of 12 per cent has no equivalent in the U.S. where it has traditionally been the prerogative of the states. Although the federal sales tax does not apply to services, it does apply to goods. This means it applies to recreation equipment and alcoholic beverages which are an important component of recreation and tourism expenditures.

In addition to the overriding general sales tax, Canada's federal government collects special excise taxes and duties on a range of so-called "luxury" goods such as liquors, cigarettes, jewelry, gasoline (surtax), which are, for the greater part, tourist-related commodities. The U.S. federal government also levies such taxes but they are generally lower than Canada's.

Table 28 compares a number of taxes levied by the federal administrations of both countries on alcoholic beverages and tobacco.

TABLE 28

FEDERAL TAXATION OF ALCOHOLIC BEVERAGES AND TOBACCO, CANADA AND UNITED STATES

		1977		
		Canada		United States
Items	Sales tax	Excise tax	Excise duty	Excise taxes
1) *Spirits* (per gallon)	12%	–	$16.25	$10.50
2) *Table wine* (per gallon)				
7% or less alcohol	12%	$0.275	–	$ 0.17
No more than 14%	12%	$0.55	–	$ 0.17
3) *Sparkling wine* (per gallon)	12%	$2.55	–	$ 3.40
4) *Beer* (per gallon)	12%	–	$ 0.42	$ 0.29
5) *Cigarettes* (per pack of 20)				
weighing 3 pounds or less	12%	$0.12	$ 0.10	$ 0.08
weighing more than 3 pounds per thousand	12%	$0.12	$ 0.12	$ 0.168

Thus at the federal level, many Canadian items are being taxed under two, and sometimes three, different taxes, while there is only one tax in the U.S. on such products. In Canada, furthermore, the general sales tax on alcoholic beverages and tobacco is calculated on the manufacturer's price gross of any excise duty (but net of any excise tax).

The provinces, with the exception of Alberta, levy retail sales taxes on a wide range of goods and services. Industry leaders estimate that provincial sales taxes in Canada are, on the average, three to four per cent higher than in the U.S. In Canada, the same sales tax that applies to goods applies to hotel rooms, while in some American states there are special room rates which are slightly higher than the sales tax rate (see Table 29).

In addition to the retail sales tax, Ontario and Québec levy surtaxes on restaurant meals. Thus, Ontario has recently readjusted its tax to 10 per cent on meals costing $6.00 or more, and Québec retains its 10 per cent tax on meals priced at $3.25 or more. However, two western provinces have eliminated sales taxes on meals, and Alberta has no sales tax (see Table 30).

Provincial liquor commissions in Canada raise substantial revenues from the retailing of alcoholic beverages, a practice which is followed in relatively few of the United States. In Canada, additional charges are often applied to bulk purchases of alcoholic beverages, i.e. by hotels and restaurants, while discounts are typically available for bulk purchases in the United States, in line with normal commercial practice. The retail price of alcoholic beverages is on average somewhat higher in Canada than in the United States. The margin is even greater for the price paid by hotels and restaurants as a result of the differing bulk purchase pricing.

TABLE 29

PROVINCIAL AND STATE LOCAL RETAIL SALES TAX AS IT APPLIES TO HOTEL ROOMS

	Room tax	Sales tax (per cent)
Connecticut	7	7
Rhode Island	6	6
Vermont	5	3
Massachusetts	5.7	5
Maine	5	5
Nova Scotia		8
Newfoundland		10
Prince Edward Island		8
Québec		8
Ontario		7
New Brunswick		8
Manitoba		5
Saskatchewan		5
Alberta		–
British Columbia		7

TABLE 30

PROVINCIAL AND STATE LOCAL RETAIL SALES TAX AND SURTAX AS THEY APPLY TO RESTAURANT MEALS[1] IN CANADA AND UNITED STATES

	Sales tax (per cent)	Surtax
Newfoundland	10	–
Nova Scotia	8	–
New Brunswick	8	–
Prince Edward Island	8	–
Québec	8	2
Ontario	7	3
Manitoba	5	–
Saskatchewan	–	–
Alberta	–	–

TABLE 30 (Continued)

British Columbia	–	–
New York	8	–
Massachusetts	5	–
Illinois	4	–
Pennsylvania	6	–
Washington (D.C.)	5.1	–

[1]Meals up to a certain price are generally free of sales tax. This varies from province to province and state to state.

Municipal direct taxes

Municipalities in both countries levy a number of direct taxes of which the most important is the property tax. There are many ways in which property taxes can vary. There are special business taxes which may range anywhere from 30 to 120 per cent of the real property tax. There may be higher mill rates on non-residential than on residential properties. Furthermore, the business tax, as it applies to the accommodation industry, is classified by certain provinces as "industrial" rather than "commercial" and hence bears a still higher rating which can be particularly detrimental to seasonal operators. Table 31 indicates the differences in the incidence of municipal taxation on the accommodation industry between Canada and the U.S.

In Canada, municipal taxes of the magnitude shown in Table 31 represented in 1970 some 5.2 per cent of total net sales and receipts of large hotels, according to a survey of traveller accommodation by Statistics Canada. This increases to 11.8 per cent when expressed in terms of gross operating costs and constitutes the third most important cost component after wages and benefits, and food products costs. Another study comparing hotel operations in Canada and the U.S. for a number of selected hotels, noted that over the last five years business and property taxes

TABLE 31

MUNICIPAL TAXATION — AVERAGE TAX PER HOTEL ROOM FOR SELECTED CITIES IN CANADA AND UNITED STATES (dollars — national currencies)

Halifax	1,127	New York	1,188
Montreal	1,923	Boston	1,004
Québec City	1,842	Chicago	608
Toronto	1,437	Philadelphia	533
Winnipeg	1,143	Washington	396
Edmonton	896		
Vancouver	790		

Source: Laventhol and Horwath

have increased as a percentage of the Canadian hotels sales whereas they have declined for the United States hotels. It also indicated that, for the group of hotels surveyed, Canadian taxes are currently 175 per cent higher than in the United States.

Energy Costs and Prices

Transportation is an important element of the tourism industry. Accordingly, any marked differential in the prices of energy products between Canada and other countries, especially the U.S., will result in a decided advantage for the country which has comparatively lower prices. Several studies have shown that the automobile is the most popular mode of transportation for Canadian residents travelling within Canada and for American tourists travelling to

Canada. CGOT has estimated that gasoline and motor oil made up about 24 per cent of all Canadian tourist expenditures in Canada in 1974. A comparison of gasoline retail taxes in Canada and the United States reveals that rates levied in Canada are generally higher than those in the U.S. As a consequence, the current average differential in the price of a gallon of gasoline between the two countries is about 14 cents, the price being 63.25 cents in the U.S. (75.9 cents when converted into an imperial gallon) and 90 cents in Canada in August 1977. From Table 32 it can be seen that the tax differential would appear to be about 15 cents a gallon in 1977 for several major cities in the United States. This corresponds roughly to the price differential noted earlier.

TABLE 32

GASOLINE TAX PER GALLON[1]
FOR SELECTED CANADIAN AND U.S. CITIES, 1977

	Federal	Provincial/State Local
	(cents per gallon)	
St. John's	15	27
Halifax	15	21
Fredericton	15	20
Montreal	15	19
Toronto	15	19
Winnipeg	15	18
Regina	15	19
Edmonton	15	10
Vancouver	15	17
New York	4	8
Boston	4	8.5
Chicago	4	9
Philadelphia	4	9
Washington (D.C.)	4	19

[1] Differentials in the size of the U.S. and Canadian gallon not considered.

The table also highlights the large variations in the level of provincial or state taxation, with Newfoundland levying 27 cents per gallon, Ontario and Québec each collecting 19 cents per gallon, and Alberta levying only 10 cents per gallon. Thus, the current average price for a gallon of gasoline in Newfoundland is $1.07, whereas it is only 84 cents in Alberta, increasing to 88 cents in Québec, and to 96 cents in the Atlantic provinces.

Air Transport Regulations

Another important institutional factor in Canada's transportation industry is the regulation of air transportation. The Canadian Transport Commission regulates both fares and the choice of services provided by carriers operating in Canada. This is similar to what is done in the United States, but with the laudable objective of preserving the commercial viability of Canadian commercial carriers it would appear that the Canadian Transport Commission is being more cautious than its United States counterpart as far as domestic charters are concerned. In the United States domestic charter provisions were broadened considerably in 1975 and 1976 but the Canadian Transport Commission is only now authorizing a limited and unsatisfactory experiment in domestic chartered flights.

It is clear that the Canadian air transportation industry now lacks the price range, incentive fares and package tours generally available in other countries for domestic travel. The deficiency is principally found in charter fares. On the other hand, special charter fares have been available for several years for international flights. These lower fares

have proved most attractive to Canadian travellers and there have been major gains in the number of Canadians on international charter flights. For instance, while domestic air travel in 1976 remained about the same as in 1975, — about 10.3 million passengers — the number of Canadians travelling on inclusive charter tours to foreign countries rose by 117 per cent from July 1975 to June 1976 compared with the previous year, reaching a total of 1,000,000 while passengers travelling by air on advanced booking charters increased by 25 per cent to about 538,000.

Clearly, it will be necessary to provide equally attractive alternatives for domestic travel which means travel on similar terms. That is, at substantially lower cost than the regular economy fares. It is true that excursion fares are available but here again — as found for regular economy fares — (see Table 20) the rates within Canada have increased faster than those to other countries or within the United States (see Table 33). It is estimated that 20 per cent of Canadian passengers on domestic airlines are travelling on excursion or other special fares (such as youth or senior citizen fares). Since about half of domestic air travel is for recreation purposes, this means that about 40 per cent of recreation air travellers are on special rates.

TABLE 33

INCREASES IN AIRLINE EXCURSION FARES BY TRAVEL AREAS JANUARY 1973 TO DECEMBER 1976

Travel Area	Fares ($) Jan. '73	Dec. '76	Percentage increases (%) Areas[1]	City pairs
Within Canada			51.6	
Regina-Victoria	88	135		53.4
Ottawa-Saskatoon	133	200		50.4
Halifax-Vancouver	216	326		50.9
Canada-U.S.			23.6	
Vancouver-San Francisco	102	125		22.5
Montreal-Miami	171	213		24.6
Within the U.S.			10.4	
New York-Denver	206	229		11.2
New York-San Francisco	295	323		9.5
Canada-Mexico/Caribbean			44.5	
Montreal-Nassau	182	263		44.5
Canada-Europe			82.2	
Halifax-London	185	337		82.2
Within Europe			13.3	
London-Istanbul	263	298		13.3

[1]Unweighted Averages
Source: *CGOT, Passenger Air Transportation and Tourism in Canada,* various issues

However, excursion fares, like all other scheduled services, are losing ground to charter flights. It is expected that charter services will soon become the most popular mode of air transportation. In this respect, it is important that Canadian air carriers are able to offer the same kind of price range and variety of services offered in competing countries.

FACTORS ACCOUNTING FOR THE TRAVEL DEFICIT

This section indicates that the stronger growth in income in Canada than in the United States explains a substantial part of the account deficit which Canada now has with the United States. It also shows that international travel by both Americans and Canadians is very sensitive to price and cost factors. This section also indicates a substantial improvement throughout much of the 1970's in Canada's travel account with countries other than the United States.

A number of economic factors have been reviewed for their impact on the size of, and the increase in, Canada's travel account deficit. Two have been identified as particularly important. First and foremost is relative price

and cost performance. There has been a remarkable coincidence between the shift of Canada's travel account with the United States to a deficit and the deterioration in Canada's overall price and cost performance. Second, there have been significant changes in comparative income levels (which are related to wage cost performance). These may have played an important role in the recent surge in the deficit on travel with the United States.

Since Canada's travel account with the United States has followed a different course than with other countries, it will be considered separately. It has been noted in this report that Canada's relative cost and price performance has been different for the United States than for other countries.

The Travel Deficit with the United States

Canada's travel account with the United States is most symptomatic of the real problem in the last three years. After modest surpluses in the early 1970s, it fell to a deficit of $250 million in 1975, which increased to $610 million in 1976 and $755 million in 1977 (see Table 34).

TABLE 34

CANADA'S RECEIPTS AND PAYMENTS, TRAVEL ACCOUNT, 1970–77

	1970	1971	1972	1973	1974	1975	1976	1977
				(millions of dollars)				
United States								
Receipts	1,054	1,092	1,023	1,160	1,328	1,337	1,346	1,525
Payments	898	898	919	1,073	1,196	1,587	1,956	2,280
Balance	156	194	104	87	132	−250	−610	−755

Income and price factors

Income and price factors have obviously played a significant part in the developments since 1973. Per capita disposable income in Canada has risen sharply recently as a percentage of that in the United States, with particularly strong gains in 1974 and 1976 in terms of U.S. dollars.

In the 15 years from 1956 to 1971, Canada's per capita disposable income was fairly constant at about 78 per cent of that in the United States. The earlier period of Canada's deficit travel account with the United States, (1956–60), coincided with a period in which the Canadian dollar was above parity with the American, boosting Canada's per capita disposable income to about 81 per cent of the United States. The depreciation of the Canadian dollar in the early 1960s reduced the income ratio to about 72 per cent, and marked Canada's shift to a surplus in the travel account with the United States (see Table 35).

The 1970 appreciation of the Canadian dollar raised the Canada–United States personal income ratio to 1956–60 levels in 1971 and 1972. But the strong income growth in Canada in ensuing years pushed this ratio steadily higher so that in U.S. dollars Canadian per capita disposable income stood at 91 per cent of that in the United States in 1974 and an incredible 101 per cent in 1976. In other words, from 1973 to 1976 an income gap of 17 per cent was eliminated.

This reflected, in part, a superior record of economic performance. From 1973 to 1976, Canada's GNP in real terms grew by ten per cent compared with 2.4 per cent in the United States. In per capita terms, the increase in Canada was five per cent compared to one per cent in the United States. The differential in increases in per capita disposable income in real terms was greater, and would account for somewhat less than half of the improvement in Canada's per capita income position. The remainder would seem to be the result of inflation, higher wage increases unsupported by production increases, which led to a deterioration of Canada's cost position.

In nominal terms, United States GNP increased by 29 per cent from 1973 to 1976. Total travel expenditures abroad by Americans rose by 22 per cent in that period; American travel expenditures in Canada rose by 16 per cent. Canadian GNP in nominal terms rose by 55 per cent from 1973 to 1976 and Canadian travel payments to the United States rose by 82 per cent.

Thus, of the $700 million deterioration in Canada's travel account with the United States from 1973 to 1976, about $250 million seem to directly reflect this differential in income growth in aggregate without making allowances for the shifting of demand from one market to another because of relative changes in costs and prices, or for higher expenditures on travel resulting from rises in real income.

TABLE 35

COMPARISON OF PERSONAL DISPOSABLE INCOME PER CAPITA CANADA, UNITED STATES, 1956-66

	Per capita disposable income			Canada as percentage of United States	
	Canada		United States	(National Currencies)	(U.S. $)
	(Can. $)	(U.S. $)	(U.S. $)	(%)	
1956-60	1,426	1,474	1,829	78.0	80.6
1961-65	1,664	1,564	2,174	76.6	72.0
1966-70	2,280	2,131	2,945	77.5	72.3
1971	2,791	2,764	3,587	77.8	77.1
1972	3,135	3,165	3,837	81.7	82.5
1973	3,603	3,603	4,285	84.1	84.1
1974	4,147	4,240	4,647	89.2	91.2
1975	4,762	4,681	5,077	93.8	92.2
1976	5,479	5,556	5,513	99.4	100.8

Preceding sections of this report document the considerably poorer cost and price performance in Canada since 1973. There is a strong case that most of the remaining deterioration in Canada's travel account with the United States results from this. A Department of Finance study demonstrates that travel expenditures by Canadians in the United States have been highly sensitive, in the past decade, to changes in the relative prices of travel with the United States. Moreover, U.S. travel to Canada was also found to be sensitive to relative price changes. This seems to be confirmed by a similar study by the Treasury Board. This is consistent with the observed relationships between the growth in overall income in the two countries and the growth in travel expenditures in the partner country.

Other Factors

There are other factors that may account for part of the deficit. It would appear that the problems affecting the industry because of the general policies examined in this report did not provoke the sudden shift to the deficit. Most of these policies have been long-standing and during most of the period they were in effect Canada enjoyed a travel surplus with the United States. This does not argue, of course, that improvement of these policies would not assist the Canadian tourist industry. Other income and price changes probably have made changes in these policies more critical.

Similarly, it does not appear that the supply of tourist services has suddenly taken a turn for the worse in terms of quantity or quality. Recent rates of new hotel construction and the decline in hotel occupancy rates suggest that the quantity at least of this type of tourist service has significantly improved. It may be argued that the wrong type of hotel was constructed and that more lower-priced hotels should have been built, but this argument appears to be a variant of the price and cost performance question.

It may be wondered whether the quality of tourist services has suddenly deteriorated. Indications are that there has been a considerable increase in the number of complaints about the quality of service in Canadian hotels and restaurants. It is difficult to ascertain whether this reflects a real deterioration of service or guests' increased readiness to express complaints in writing or by telephone to government or industry authorities. Certainly, it is a matter to concern the industry. Objectively, it would seem that discipline imposed by high levels of unemployment should result in better service in the restaurant and accommodation industries. This is obviously a question to be examined further.

Another possible factor is change in the structure and nature of demand for tourism. Some changes, such as those in age composition, take place slowly and are by their very nature unlikely to provoke any sudden change in demand. But some structural changes in demand are clearly related to income and costs. The sharp increase in Canadian expenditures for travel to warm climates during winter is clearly such a factor.

Major events also have an important effect on the travel balance. Expo '67, for instance, is estimated to have directly improved Canada's international travel account by about $600 million. The Bicentennial celebrations in the

United States probably shifted a part of travel originally intended for Canada to U.S. destinations and may have increased Canadian travel to the United States. U.S. data indicate a significant increase in domestic travel in 1976. The Queen's Silver Jubilee celebrations in Britain probably had a similar effect in slowing the growth of Britons travelling to Canada, and increasing travel to Britain. Events such as the oil embargo in early 1974 and the resulting oil shortage in the United States undoubtedly reduced the traditional two-way travel between Canada and the United States. The general conclusion is that the U.S. Bicentennial celebrations had some but not a major effect on Canada's travel transactions with the United States in 1976.

The Travel Deficit with Countries Other Than the United States

Canada's trade deficit with countries other than the United States increased in recent years from the $350 million to $400 million level of the early 1970s, to about $580 million in 1976 and approached $900 million in 1977 (see Table 36). These developments must be thoroughly analyzed to be fully understood.

TABLE 36

CANADA'S RECEIPTS AND PAYMENTS, TRAVEL ACCOUNT 1970-77

	1970	1971	1972	1973	1974	1975	1976	1977
				(millions of dollars)				
Countries other than the United States								
Receipts	152	154	207	286	366	478	584	497
Payments	524	550	545	669	782	955	1,165	1,383
Balance	−372	−396	−338	−383	416	477	−581	−886
Receipts as proportion of payments (%)	29.0	28.0	38.0	42.8	46.8	50.0	50.1	35.9

The fact is that Canada's travel receipts from such other countries have been increasing more rapidly than our payments to them. In 1970 and 1971, receipts amounted to less than 30 per cent of our payments. By 1975 and 1976 the proportion had risen to 50 per cent. There has been an apparent decline in 1977. Travel receipts from these countries declined in 1977 while our payments continued to rise.

The strong increases in receipts from 1970 to 1976 are consistent with the strong income performance of Western Europe and Japan, aided by the upward valuation of the currencies of most of these countries. Travel payments to countries other than the United States did not increase quite as strongly as they did to the United States, due in part to the higher rates of inflation in Western Europe and Japan. The increase was stronger than might have been expected, reflecting the fact that much of the growth took place in travel to the Caribbean and Latin America.

While the deterioration in 1977 may indicate developing problems, in general the trend from 1971 to 1976 in Canada's travel account with countries other than the United States was about as favourable as might have been expected. Nevertheless, it obviously requires continuing attention.

SUB-COMMITTEES: TERMS OF REFERENCE, CHAIRMEN, MEMBERSHIP

SCOPE DESCRIPTION
OF
THE PROPOSED SUB-COMMITTEE ON TAXATION

Federal and provincial Ministers responsible for tourism, at their meeting on January 31, 1978, agreed that governments should examine the impact of taxation on the total tourism sector to identify inconsistencies, achieve rationalization and propose remedial action.

In reaching this decision, the Ministers noted that the Canadian hospitality sector is subject to as severe domestic and international pressures and competition as any other sector of the Canadian economy, but that in taxing the Canadian tourism industry, governments at all levels have tended to tax the components of the industry rather than taxing its totality as is the case with other industries. The cumulative impact of these individual taxes produces an effect which is inadvertently discriminatory.

In coming to their recommendation, which was formally approved by First Ministers in mid-February, Ministers responsible for tourism took account of such elements of taxation as:

- federal taxation measures and incentives that appear to be designed specifically for the manufacturing and resource industries and which in consequence are of little relevance to the hospitality industry;

- provincial tax incentives also primarily aimed at manufacturers and retail sales taxes that effectively subject the service industry to double taxation;

- municipal property and business taxes that impose a heavier financial burden on Canadian hotel operations than comparable taxes in the United States;

- federal and provincial taxation on gasoline that contributes to retail prices uncompetitive with those in the United States;

- federal and provincial taxes on liquor dispensed by the Canadian hospitality industry and wholesale purchasing practices that put the industry at a disadvantage.

The Sub-Committee should examine these and other matters related to taxation that it identifies and make comment and recommendations as it deems appropriate. The recommendations should be as explicit as possible.

Existing documentation includes some working papers prepared for the January 31 meeting of tourism Ministers.

Chairman: Mr. E.B. Fletcher, President, Commonwealth Holiday Inns of Canada Ltd.

Secretary: Mr. A.J. Moore, Director, Planning and Research, CGOT

Members: Mr. E.G. Burton, President, Simpsons Ltd.
Mr. J. Learney, President, Travel Association of Alberta
Mr. R. Scrim, First Vice-President, Canadian Automobile Association
Mr. G. Zaritsky, Director, Financial Planning, Commonwealth Holiday Inns of Canada Ltd.

SCOPE DESCRIPTION
OF
THE PROPOSED SUB-COMMITTEE ON INDUSTRY DEVELOPMENT

Federal and provincial Ministers responsible for tourism agreed, at their meeting of 31 January 1978, that governments confirm and reiterate a priority for tourism plant development, with the objective of steadily increasing the competitive position of Canada's tourism product.

They recommended that provincial tourism departments, in concert with the federal department of Industry, Trade and Commerce, should prepare a detailed proposal for a regionally-oriented program that would assist with travel industry development.

They considered that there should be an examination of financing assistance available to or specifically needed by the private tourism sector, including incentives and recommendations made in the light of the findings.

The conclusions of the Conference of First Ministers on the Economy mentioned tourism as follows:

> "First Ministers agreed to collaborate in a national campaign to expand the domestic tourist industry by increasing travel promotion, by expansion and improvement of facilities and by minimizing costs to both Canadians travelling at home and foreign visitors".

The Sub-Committee should consider these matters and make comment and recommendations as it deems relevant.

Almost certainly it will want to take into account other things relevant to industry development, e.g. the level of management competency, the state of development planning, the adequacy of the Canadian "travel product".

Material available includes much documentation originated by CGOT and documentation prepared for Ministers' conference on January 31. The "Instruments" paper provided Task Force members in their briefing documents is also relevant.

Chairman: Mr. R.F. Fiske, President, Fiske Group Limited

Secretary: Mr. D.C. Bythell, Director General, Policy Planning and Industry Relations, CGOT

Members:
Mr. F. Boyer, Ministry of Industry and Tourism, Ontario
Mr. G. Burden, District Manager, Air Canada
Mr. G. Clarke, President, Mont Ste-Marie Limited
Mr. K. Draper, DREE, New Brunswick
Mr. J. Hayes, President, Jasper Skytram Ltd.
Mr. J. Syroid, Department of Tourism, New Brunswick

SCOPE DESCRIPTION
OF
THE PROPOSED SUB-COMMITTEE ON TRAVEL MARKETING

At their January 31st meeting, federal and provincial Ministers responsible for tourism noted some constraints on marketing capabilities of governments in Canada, and agreed on the desirability of meeting the intensifying international competition in the pursuit of domestic travel promotion and in the promotion of visitor traffic to Canada.

The conclusions of the Conference of First Ministers on the Economy mentioned tourism as follows:

> "First Ministers agreed to collaborate in a national campaign to expand the domestic tourist industry by increasing travel promotions, by expansion and improvement of facilities and by minimizing costs to both Canadians travelling at home and foreign visitors".

Considerable information is available on these elements where travel marketing is concerned. The "Instruments" paper provided Task Force members in their briefing documentation is also relevant.

The Sub-Committee should develop explicit views and recommendations concerning travel marketing for inclusion in the Report of the Task Force.

Chairman: Mr. J.R. McMurtry, Vice-President, Marketing & Operations Planning, Air Canada

Secretary: Mr. R. Boire, Director General, Marketing, CGOT

Members: Mr. K. Crosby, Department of Tourism, Yukon Territory
Mr. L. Gilmour, Department of Tourism & Renewable Resources, Saskatchewan
Mr. Jon De West, President, De West Tours Limited
Mr. D. Wray, President, Canterbury Flag Inn

SCOPE DESCRIPTION
OF
THE PROPOSED SUB-COMMITTEE ON THE REGULATORY FRAMEWORK

Federal and provincial Ministers responsible for tourism, at their meeting on 31 January 1978, saw this area as primarily encompassing the regulatory framework on transportation and the approvals process prescribed for handling applications for tourism development projects.

They deemed the regulations on transportation to have been significantly improved recently where domestic air travel was concerned, but needed constant attention to maintain a fully competitive position internationally and to ensure opportunities for domestic air travel at least equal to the opportunities for air travel from Canada to points abroad.

They were agreed on the integral role the transportation system plays in the development of the tourism industry, in particular water transportation in the coastal provinces, exemplifying the need for a flexible transportation system.

They agreed on the need for a careful examination of the possible extension and implementation of passenger clearance facilities at Canadian airports.

They agreed that federal and provincial officials should work with the private sector to identify and propose remedies for those procedural delays at all levels of government which tend to impede tourist developments.

The Sub-Committee should examine all matters deemed relevant to the regulatory framework for transportation for all modes of transport, and should review the procedural processes of government relevant to tourism development and make comment and explicit recommendations as it deems appropriate.

Material extant includes September 1976 paper on tourism and transportation prepared for a federal-provincial meeting and other documentation.

Chairman: Mr. J.K. Dakin, Executive Vice-President, C.P. Air

Secretary: Mr. George Tawse-Smith, Director, Marketing, CGOT

Members: Mr. R. Huisman, C.P. Air
Mr. M. Joy, Department of Tourism, Newfoundland
Mr. L. McIntyre, Air Canada
Mr. L.I. Nathan, Vice-President, Special Projects, Suntours Limited
Mr. J. Robertson, President, Mack Travel
Mr. W.B. Tilden, Chairman, Tilden Rent-a-Car System Ltd.

SCOPE DESCRIPTION
OF
THE PROPOSED SUB-COMMITTEE ON WAGES AND RELATED LEGISLATION

Federal and provincial Ministers responsible for tourism, at their meeting on January 31, 1978, agreed that governments should review policies on wage rates in the hospitality industry.

They concluded that the practice of paying premium wage rates for work performance on statutory holidays to employees in the hospitality industry should be re-examined and remedial measures proposed because of the undue impact of this practice on the costs and prices of the hospitality sector.

Most Ministers agreed that governments should examine the feasibility of extending the "tip differential" practice in the tourism sector Canada-wide.

Ministers further agreed that governments should ensure that wages in the public sector should not lead but follow wages in the private sector.

The Sub-Committee should examine these and other matters related to wages that it identifies and make comment and explicit recommendations as it deems appropriate.

The whole area of manpower supply, training and education may be allied topics.

Background material on wages, tip differential and statutes on premium rates of pay are available. Similarly, information on manpower training and development can be provided.

Chairman: Mr. W.E. Biggs, Chairman, Tourism Ontario

Secretary: Mr. B.F. Campbell, Director, Industry and Government Relations, CGOT

Members: Mr. R.D. Clark, Labour Canada
Mr. J.W. Frise, Chairman, New Brunswick Tourism Advisory Council
Mr. H. Petrak, President, HEFRU Food Services Ltd.
Mr. T. Rees, Hotel and Restaurant Employees' and Bartenders International Union

SCOPE DESCRIPTION OF THE PROPOSED SUB-COMMITTEE ON SMALL BUSINESS

Federal and provincial Ministers responsible for tourism, at their meeting on 31 January, discussed the contribution to growth and employment of small businesses in the tourism-related industry in Canada. The federal Minister of State for Small Business noted that the Small Business Policy for Canada which he announced last Fall will contribute to alleviating some of the problems of small business tourist operators.

Provinces have already focussed considerable attention on improving the viability and competitiveness of the tourism industry.

In light of the common interest, Ministers agreed that substantial scope exists for federal and provincial governments to work together to ensure a more effective development of the small business tourist sector in Canada.

Material available includes documentation issued by Small Business Secretariat, IT&C, concerning a 10-point plan for development of a Small Business Policy and work and research specific to tourism related small businesses by CGOT.

The Sub-Committee should consider these and related matters and make its views and recommendations known to the plenary Committee.

Chairman: Mr. D. Johnson, President, Prairie Valleys Travel Association

Secretary: Mr. Gordon Taylor, Assistant Director, Research, CGOT

Members: Mr. G. Brookins, President, Travel Industry of Prince Edward Island
Mr. I. Fraser, Small Business Secretariat
Mr. W.B. Thompson, Chairman, New Brunswick Community College

SCOPE DESCRIPTION
OF
THE PROPOSED SUB-COMMITTEE ON INDUSTRY AWARENESS

Federal and provincial Ministers responsible for tourism, at their meeting on 31 January, agreed that greater effort should be made to increase public awareness of the importance of tourism and to improve the attitudes of residents as well as those dealing with tourists in the private and public sectors.

A number of provinces have implemented or are about to carry out awareness campaigns. The CGOT has several initiatives underway in this respect, e.g. a national awareness campaign and joint projects with Canada Customs, cooperative planning with TIAC, participation in IDISC, etc.

The Sub-Committee should consider these and related matters and make its views and recommendations known to the plenary Committee.

Chairman: Mr. G. Weber, President, Cardinal Coach Lines Ltd.

Secretary: Mr. J. Murphy, Assistant Director, Industry and Government Relations, CGOT

Members: Mr. J. Becker, President, Atlas Travel Tours
Mr. J. Bugden, Department of Tourism, Nova Scotia

SUB-COMMITTEE REPORTS

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE REPORT

ON

TAXATION

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TAXATION SUB-COMMITTEE

THE TOURISM INDUSTRY

An Overview of the Industry:
Objectives, Principal Issues
and Recommendations on Taxation

1. OBJECTIVES

1.1 In reviewing the taxation framework and developing recommendations, the Sub-Committee has worked towards achieving the following objectives.

1.2 Reduced Prices and Costs. The Sub- Committee considers that, above all else, the major handicap that the Canadian industry operates with is high prices. Because of the increasingly international nature of tourism, it will only be possible for Canada to draw guests from abroad and retain the Canadian tourist if prices are competitive. In the short run, therefore, a great effort must be made to reduce costs and prices. The benefits that will accrue from such action will be in the form of higher volumes which in turn will help reduce the travel dollar deficit, stimulate employment as well as generating taxes and much needed profits.

1.3 Increased Investment. The decline in volumes and increases in costs have led to reduced profits. This has created a shortage of funds for reinvestment and acted as a deterrent to lenders. Because of this situation, investment in new equipment and facilities, renovations, and improvements that are essential if Canada is to have an attractive product for the consumer, has been delayed. The Sub-Committee, therefore, considers renewed profitability and a healthy climate for investment in the industry to be an essential objective.

2. PRINCIPAL TAXATION ISSUES AND RECOMMENDATIONS

2.1 To achieve these objectives, the Sub-Committee identified two principal taxation issues to which governments had to respond with positive action.

2.2 Integrated Taxation Policy. The tourism industry is not recognized or treated as an integrated tourism sector in current taxation policy, legislation and regulations. The results has been:

i) double or multiple taxation of the industry by governments;

ii) specific policies at federal, provincial and municipal levels that act as a serious disincentive to tourism such as:

- extremely burdensome municipal property taxes (see Schedule III);
- federal "user pay" policy which is either inequitably applied or applied without consideration of its negative impact on tourism;
- retail sales tax - dual tax rate particularly in respect of alcoholic beverages and meals (see Schedule V).

The consequence has been serious erosion of the industry's cost and price performance.

2.3.1 Incentives for Domestic and International Growth. Current provisions in taxation policy and legislation include tax incentives for the export of goods and for the protection and stimulation of manufacturing/processing industries.

2.3.2 Tourism, however, is not recognized as an internationally traded service sector and one of Canada's largest foreign currency earners; and a largely Canadian-owned industry, which is labour-intensive as well as capital intensive. It is also a national industry that finds opportunities for development in regional

characteristics, not constraints, as with some industries. As a result, tourism is an unprotected industry in an internationally competitive market, particularly with its major competitor, the United States. The impact has been felt in the serious erosion of the Canadian tourism industry's competitive cost and price performance with the United States (Schedule I).

2.4 Recommendations. The Sub-Committee strongly and urgently recommends that governments:

i) develop an integrated taxation policy for the tourism industry and incorporate that policy in legislation; and

ii) in taxation policy and legislation, recognize tourism as an internationally traded service sector that is an important earner of foreign currency; as a Canadian-owned labour-intensive industry that contributes to national and regional economic growth; and thereby extend to it tax incentives normally granted to manufacturing/processing industries, and to encourage the export of goods.

TAXATION SUB-COMMITTEE

SPECIFIC RECOMMENDATIONS

TOURIST ACCOMMODATION SECTION

1. INTRODUCTION

1.1 In both background material and in the briefs provided to the Sub-Committee it is clear that Canada's accommodation industry is operating well below capacity and is in economic difficulty.

1.2 Although various factors have caused this decline the most obvious is its inability to compete for tourists with the United States mainly because of increases in costs and prices.

1.3 This situation has prompted a close examination of all facets of the industry and in the field of taxation, it has highlighted the extent to which policies have seldom recognized the special characteristics of the industry.

1.4 It is important to point out that as many taxes are levied with price as the basis, disparities in base prices between the Canadian industry and its competitors are magnified when taxes are added.

1.5 It is also worth noting that it is a fundamental assumption of the Sub-Committee that, as far as tourism and major convention business is concerned, the industry is operating in an essentially unprotected market with few inherent advantages vis-à-vis its competitors. For this reason it is taken as a priority that the industry must regain its price competitiveness in order to perform effectively.

1.6 While reference will be had to the tax treatment of the accommodation industry relative to other sectors of the economy, the Sub-Committee considers that the greatest emphasis should be placed on developing a taxation policy that places Canada in as a competitive a position as possible with the United States and other countries.

1.7 The Sub-Committee is firmly convinced that a lowering of prices through various means, of which tax treatment is most important, will stimulate business and in turn generate tax revenue.

1.8 It is also the Sub-Committee's opinion that in considering the various alternatives open to Governments the greatest overall benefit to the industry and the economy as a whole will be achieved by a more favourable tax treatment.

It is suggested that the recent tourist industry dilemna has led to a decline in the quality of existing facilities and that emphasis should be placed on bringing them up to standard.

2. TAXATION FRAMEWORK

2.1 In keeping with its mandate the Sub-Committee has reviewed the federal, provincial and municipal taxation framework.

2.2 The principal taxes and tax considerations which are examined by the Sub-Committee are the following:

1) Sales Taxes
   a) Paid by the Consumer
   b) Paid by the Industry

2) Alcoholic Beverages (considered within the Food Service Industry Section)

3) Tax treatment of Capital
   a) Capital Cost Allowances
   b) Investment Incentives

4) Municipal Property Tax

In addition, a number of other items which bear indirectly on taxation policy are examined.

3. SALES TAX

3.1.1 Since the First Ministers Conference, action has been taken in Ontario to temporarily remove the sales tax on rooms and in Quebec more permanently so. This is a move heartily welcomed by the accommodation industry.

3.1.2 Notwithstanding the benefit of this action it must be recognized that it only narrows the gap in room rates that has developed in recent years with the United States. Further, although there is a temporary general sales tax reduction, it is smaller and does not significantly benefit food and beverage sales which constitute approximately an equal portion of the tourist's expenses.

3.1.3 It should also be noted that, even given equal tax rates, the generally higher Canadian room rates will still produce a greater absolute tax and therefore total price to the tourist.

3.2 Retail Sales Taxes on Rooms

3.2.1 It has been shown in various tables within the background material that sales tax rates in the United States are generally lower than in Canada and this obviously detracts from the appeal of Canada, particularly when applied to already higher prices.

Indeed it is the Sub-Committee's view that the higher sales tax rates in fact produce lower revenues than would be the case if sales taxes were lowered thereby stimulating increased volumes.

3.2.2 Accordingly it is recommended that each provincial government identify those of the United States from which it draws the majority of its tourists and then apply a sales tax rate competitive with those States. It is also recommended that once the temporary lowering of sales taxes ceases, they be reintroduced only gradually up to the appropriate amount.

3.2.3 Although sales taxes do not affect municipal revenues, the Sub-Committee urges that a permanently lower sales tax be applied to tourist accommodation in order to overcome the generally very much higher municipal taxes in Canada. This tax in recent years has very seriously affected both the prices and profitability of the industry.

3.3 Retail Sales Tax on Food and Beverages

3.3.1 As is the case with sales tax on Rooms, Food and Beverage taxes tend to be higher in Canada than in the United States and it is therefore recommended that an approach similar to that suggested for room sales be adopted.

3.3.2 It is, however, recognized that the proportion of sales of Food and Beverages attributable to the Tourist trade is smaller than in the case of hotel rooms. Therefore it is suggested that the feasibility be examined of making such appropriate tax rate reductions only during the key vacation months. In this way lost tax revenues from non tourist sales would be minimized.

3.4 Retail Sales Tax - Dual Tax Rates

3.4.1 In Ontario and Québec, meals bear a tax rate above the normal tax rate although below a certain amount they are free of tax. In the case of alcoholic beverages,

however, any purchase bears the full higher rate.

3.4.2 The Sub-Committee considers these dual rates to be discriminatory insofar as they are unique, and in addition are a serious administrative problem.

3.4.3 It is therefore recommended that the higher rate applicable to meals and liquor be reduced to conform to the general sales tax rate, thereby stimulating employment in what is a very labour intensive area.

3.5 Sales Tax Paid by the Tourist Accommodation Industry

3.5.1 As has been noted in many background papers, many items purchased by hotels are considered tangible personal property used in providing services and are treated as taxable. However, it is considered by the Sub-Committee that the very magnitude of investment and therefore the proportion of revenues that goes to the purchase of these items demonstrates the extent to which the guest is the end user rather than the hotel operator.

3.5.2 It is also clear from the treatment of these items as not subject to retail sales tax in the United States and elsewhere, that present tax policy places the Canadian Accommodation Industry at a disadvantage.

3.5.3 It is therefore strongly recommended that hotel furnishings be exempted from retail sales tax.

3.5.4 As has been mentioned previously, it is the Sub-Committee's view that many Canadian facilities are in need of renovation and refurbishing and this would create significant demand for the goods and services of such industries as furniture, textile and construction, all of which are in economically poor health. It is therefore recommended that the Federal Sales Tax be removed from items used in the accommodation industry for a period of at least three years.

3.6 Compensation for the Collection of Sales Tax

3.6.1 At present, compensation of sales tax collection is virtually non existent. Furthermore, the rigorous level of accuracy required means that high costs are incurred in its collection.

3.6.2 It is recommended that a more realistic remuneration for the collection of sales tax be given, based upon a percentage of the amount collected.

4. TAX TREATMENT OF CAPITAL INVESTMENT

4.1 General

4.1.1 Accommodation is treated for taxation purposes within a system that was designed without taking into consideration the characteristics of the industry.

4.1.2 In essence they have been treated as a service industry and yet it is the strong view of the Sub-Committee that this is an inaccurate classification. Even though goods are not produced, unlike most service industries the Accommodation Industry requires a very large investment in plant and equipment, with much of it needing frequent replacement.

4.1.3 In the past the policy adopted by both Provincial and Federal governments has been to encourage investment in the resource and manufacturing sectors by way of either realistic capital cost allowances or by bonus allowances involving fast write-offs. In addition, tax credits for investment and bonus depreciation allowances have been given.

4.1.4 The Accommodation Industry has had little opportunity to benefit from these provisions and, in fact, it is the view of the Sub-Committee that in many instances capital cost allowances inadequately compensate for real depreciation.

As a result, many items have not been written off by the time they are in fact replaced.

4.1.5 Notwithstanding what the Sub-Committee views an unrealistic tax treatment relative to other sectors of the Canadian economy, there are compelling reasons that would justify changes strictly in order to place the Accommodation Industry on an equal footing with its competitors in other countries.

4.1.6 Most important is the comparison with the United States and the United Kingdom where capital investment is in a favourable position on many counts. (See Schedules I and II).

For example:

1) The cost of borrowing is generally lower. Also there are many schemes available which provide preferential borrowing rates and repayment periods.

2) Many states give tax credits for capital investment as well as bonus depreciation or fast write-offs.

3) The normal write-off period for items is generally more realistic in terms of their real life and is also much more flexible.

4.2 Recommendations

4.2.1 The Sub-Committee, having reviewed the material available, makes the following recommendations.

4.2.2 Investment Incentive

In order to stimulate the immediate and necessary capital improvement of many hotels, etc., which has been postponed during the recent industry recession, it is recommended that:

1) For at least the next three years any renovations, conversions and alterations within an existing building be written off over a two year period which is the same time period applicable to Class 29 items in the Manufacturing Sector.

2) A 5 per cent tax credit be given for investment in renovations, conversions and alterations.

3) These renovations, conversions and alterations be given a 15 per cent bonus valuation for the next three years during which ongoing programmes will be subject to absorbing the effects of the massive price increases of recent years.

4.2.3 Tourist Accommodation Classification for Capital Cost Allowance

For the long run it is recommended that the capital cost allowance regulations be amended to provide for specific allowances in respect of assets used in the provision of tourist accommodation. Specifically, it is recommended that:

1) Class 12 (100 per cent) be extended to include housekeeping and other small equipment, such as vacuum cleaners and poolside furniture, having a short life.

2) Capital improvements such as drapes, carpets, painting, vinylling and wallpapering should be at a rate sufficient to fully amortize their cost over four years.

3) Television sets and other room furnishings should be permitted a rate of 25 per cent.

4.2.4 Inventory Allowance

It is recommended that qualifying inventories be redefined so as to give a more realistic allowance to hotels. At present, hotels benefit little from the 3 per cent allowance.

4.2.5 Capital Taxes

In Ontario and Québec, an operator is obliged to pay 0.2 per cent on invested capital (equity and debt). In the case of Ontario this tax was increased by 50 per cent to 0.3 per cent. In an industry not typified by a high return on investment this is evidence of a further tax burden, particularly during start up years when no profit is being earned, and an area recommended for review by appropriate provincial taxation authorities.

5. MUNICIPAL PROPERTY TAXES

5.1 General

5.1.1 Municipal Property Taxes are the most difficult expense for the Tourist Accommodation Industry for several reasons.

1) Relative to the United States, Municipal Property Taxes in Canada constitute for the Tourist Accommodation Industry possibly the greatest cost disparity. In fact, the Sub-Committee has evidence that this disparity is in the area of 100 per cent (see Schedule III).

2) They are the third largest operating expense.

3) They are essentially unaffected by the performance of a hotel.

4) Unlike fixed costs such as debt service they increase yearly and the increase is almost totally uncontrollable by the operator.

5) In recent years, while hotel revenues have been stagnant or in decline, Municipal Property Taxes have increased dramatically with the result that they now constitute a major problem for many operators particularly in the major metropolitan areas.

5.1.2 The basis upon which most Municipal Property Taxes are levied is assessed value and of all taxation systems this is probably Canada's least uniform in both principle and application. While it is inevitable that Municipal Property Taxes will vary from place to place, according to the municipal revenue requirements, the multitude of methods used in the calculation of assessments means that a coherent policy and practice has difficulty in developing.

5.1.3 It is indeed surprising that a tax which levies such a significant proportion of government revenue is based on a system which is so little understood by the average taxpayer.

5.1.4 The Sub-Committee has had great difficulty in both analysing and in developing anything other than broad recommendations for the simple reason that the system has so many variations across Canada and which extend to the municipal level.

5.1.5 Illustrative of some of these variations are the following:

1) Provinces adopt different bases for assessment.

2) Assessed values often have remained unchanged for many years while relative market value has changed enormously.

3) Many jurisdictions have made it a policy to entrench differential treatment as between classes of property.

4) Courts have been reluctant to give recognition to economic factors such as over supply or declining profitability.

5) The cost of replacement method of valuation is frequently adopted and often fails to account for economic obsolescence.

5.1.6 Although in recent years several Provinces have moved towards the principle of "market value" assessments, the magnitude of the task has made for very slow change. It is worth noting that Ontario has yet to introduce market value assessment after eight years of effort.

5.1.7 All of these factors are especially difficult for the Tourist Accommodation Industry as municipal taxes have been rising quickly and yet assessment practice has been unresponsive to the economic state of the industry.

5.1.8 In essence the root of the problem for the Tourist Accommodation Industry is that a generally antiquated and inflexible basis of taxation is applied to an industry which is economically volatile.

5.2 Recommendations

5.2.1 It is recommended that, at least in the short run, Governments seriously consider giving a direct 25 per cent rebate of Municipal Property Taxes.

5.2.2 Although at present the industry is generally not profitable and, therefore, not in a position to pay income taxes, it is suggested that they be permitted to gross up by 50 per cent Municipal Property Taxes payments, thereby benefitting from a lowered income tax once they become profitable enough to pay such taxes.

This move would alleviate, but certainly not remove, the enormous disparity in Municipal Property Taxes that exists between the Canadian and United States accommodation industry.

5.2.3 The Sub-Committee understands the difficulties of amending legislation or of involving municipalities in special tax treatment of individual properties. Accordingly, even though Municipal Property Taxes are one of the most serious sources of the industry's current difficulties, it is suggested the federal and provincial governments take account of the burden of this tax when considering adjustments in other taxes.

5.2.4 The Sub-Committee recommends that the taxation of tourist accommodation for municipal purposes be examined in more detail with alternative methods to those presently used being given consideration. As an example, a municipal room tax such as is used in various other jurisdictions might be considered.

5.2.5 In the short run it is recommended that assessment authorities be encouraged to give greater weight to the revenue or income method of assessment which would go some way towards recognizing the volatile economics of the tourist accommodation industry.

6. OTHER ITEMS RELATING TO TAXATION

6.1 Sales Tax on Retail Goods

6.1.1 It is well recognized in the industry that shopping is a major activity of many tourists, particularly in the larger cities. In the past, many visitors from the United States went out of their way to make purchases in Canada as various items were perceived to be cheaper. Today, however, most items are much more expensive in Canada than in the United States and are perceived to be so.

6.1.1 (a) Observation of Canadian tourist activity abroad indicates that purchasing decisions are based on difference of selection, perceived value for money, and is influenced for urgency of the purchase by those markets which refund all Value Added Taxes (V.A.T.)

6.1.2 Retail Sales Tax or its equivalent is an item which several countries remove from purchases made by tourists from abroad. This policy could be implemented in Canada in order to at least indicate to foreign tourists this country's interest in making them welcome.

6.1.2 (a) It should be noted that with the multiple structure of Provincial and Federal sales taxes (and including certain Customs or Excise taxes), that the reduction of such taxes at point of sale and in the administrative follow-up could become a paperwork nightmare. Increased bureaucracy will not contribute to greater perceived intrinsic value in our merchandise offerings.

6.1.2 (b) From time to time there are specific and general proposals for expansion of "Duty Free" shopping. Shops which are franchised based on periodic bids in our country do not appear to reduce the cost of such purchases as much as in other countries.

6.1.2 (c) Border point shops which enjoy this mid-term monopoly, do not pass on as much value as a more open, competitive, market would do. Possibly certain general merchandise stores could qualify for more complete offerings of Duty Free merchandise if they were to covenant to build the service offices required for more detailed accounting and adherence to Canadian Customs' duty laws and regulations.

6.1.3 It is accordingly recommended that a scheme of retail sales tax exemptions for foreign visitors be developed with simplicity for the tourist being given the priority.

6.1.4 The Sub-Committee had strong representations with respect to the Federal Sales Tax. It was suggested that the tax is one of the prime cause of reduced spending in Canada on the part of both domestic and foreign consumers.

6.1.5 While it is not within the scope of this Sub-Committee's mandate to review such an important tax, it is recognized as being a major contributor to the high price of consumer goods in Canada.

6.1.5 (a) In addition to the most logical appeal we can make to U.S. dollar spending in this country, a strong benefit to Canada could be derived by attracting a larger portion of domestic tourist dollars to stay in Canada. A radical possibility in support of domestic vacationing and tourism might allow Sales Tax and/or Customs' Duty "Holidays" to every Canadian for at least two weeks of their annual vacations.

6.1.5 (b) Further outside of this Sub-Committee's purview, are the benefits to Canadian manufacturing, importing and domestic wholesale and retail distribution businesses which would be enhanced by attracting dollar spending from the largest group of potential tourists or available consumers in Canada at any time throughout the year. We should not forget the potential for such side benefits to be derived from Canadian tourists as well as foreigners.

6.1.6 The nature of impulse merchandise such as souvenirs and non-comparable artifacts or objets d'art is such that sellers will typically command the price that the traffic will bear, with or without sales tax. On the other hand, items such as furs, wearing apparel, decorative home goods, and giftwares could enjoy a substantially improved play in a highly competitive marketplace by the reduction of cost, and therefore of retail pricing factors.

6.1.6 (a) Value for money and more image for style are the two strongest enhancements foreseen in attracting tourist shopping dollars, and therefore expanding our market.

6.2 Tax Treatment of Convention Expenses

6.2.1 The much publicized United States convention expenses legislation (Sec 602 of the U.S. Tax Reform Act of 1976) is clearly only one factor within a complex series of aspects affecting Canada/United States trade relations and realistically must be examined with that context. It is, however, the Sub-Committee's view that if the present United States tax treatment of convention expenses is not amended, Canada should alter its tax regulations to at least make them comparable to those of the United States.

FOOD SERVICE INDUSTRY SECTION

1. INTRODUCTION

1.1 There are two major aspects of the food service industry which the Sub-Committee considers must be given attention:

1) Alcoholic Beverages

2) Sales Tax on Equipment used in Food preparation.

2. Alcoholic Beverages

2.1.1 The subject of alcoholic beverages clearly is of importance to the Accommodation Industry. However, the Sub-Committee deals with this subject within the section on the Food Service Industry but considers the observations and recommendations to be equally applicable to the Accommodation Industry.

2.1.2 Few products have been taxed with such special consideration over as long a period of time as alcoholic beverages. Nor are there many products upon which governments rely as heavily as a source of revenue.

2.1.3 It is for this reason that the Sub-Committee considers that a fresh approach should be taken to the subject, particularly as it pertains to the hospitality industry in general.

2.1.4 In the past it has been felt in the industry that taxes on alcoholic beverages are excessive and should therefore be reduced. It is indeed strongly felt that the present high price of alcoholic beverages partly explains the generally lower sales volume in Canada as opposed to the United States which, in turn, has caused lower labour productivity in the food areas and contributed to higher prices. However, the difficulty faced by government has been finding an alternative source from which to levy lost revenues caused by a tax reduction.

2.1.5 Therefore, in light of the realities of the situation, the Sub-Committee has reexamined not the overall tax placed on alcoholic beverages but the apportionment of taxes between the home consumer and non home consumer.

2.2 The Present Basis

2.2.1 Unlike most other countries, Canada's liquor distribution system is substantially a government monopoly enabling prices to be fixed and competition removed.

2.2.2 It has also been the policy of governments, for whatever reason, not to differentiate on price as between volume purchasers who, in turn, resell and the individual. Indeed it it not unusual for a surcharge to be levied from the retailer. It is the view of the Sub-Committee that in Canada the consumer on controlled permises is treated in a discriminatory fashion.

2.2.3 By comparison, in the United States and elsewhere, volume purchasers normally do obtain a discount in much the same way as for any other product and are therefore able to charge the customer a more reasonable price. Whereas studies indicate retail prices to be reasonably similar Canada versus United States, wholesale prices are often in the area of 50 per cent higher in Canada. (See Schedules IV, V,VI and VII).

2.2.4 As a result, the Canadian hospitality industry is operating at a disadvantage both domestically where beverages consumed at home are considerably cheaper than in a hotel and internationally where competitors receive volume discounts.

2.3 Proposed Basis

2.3.1 The Sub-Committee therefore recommends that initially the hospitality industry be charged at least the same price as consumer items for home consumption to

compensate for the discounts and, that over a period of time, a significant price differential be allowed to develop.

2.3.2 This change would make the Canadian hospitality industry more competitive with other countries and would also be beneficial domestically by reducing the home/non home price differential and thereby encouraging use of not only beverage but also restaurant facilities.

3. Sales Tax on Equipment Used in Food Preparation

3.1.1 The food service industry generally is not regarded as manufacturing or producing a product and, therefore, is not exempted from Federal Sales Tax.

3.1.2 The Sub-Committee considers, however, that from three standpoints this treatment is inequitable.

3.1.3 Firstly, the accepted definition of a manufacturer or producer is one that applies labour and capital to raw materials and thereby alters their form, shape and appearance or properties so as to produce a new identifiable object.

3.1.4 Secondly, the industry is increasingly competing with traditional food manufacturers in the area of pre prepared meals. In being subject to Federal Sales Tax, the food service industry is therefore at a competitive disadvantage.

3.1.5 Finally, there is at present an inconsistency of treatment within the food service industry inasmuch as donut shops, pizzerias, and in-store bakeries are exempted from the tax.

3.2 Recommendations

3.2.1 The Sub-Committee strongly recommends that the food service industry be exempted from the sales tax.

3.2.2 This exemption could be readily implemented by the Customs and Excise Division of Revenue Canada and would not require any legislative changes.

AIR TRANSPORTATION SECTION

1. INTRODUCTION

1.1 The Canadian airlines like other components of the tourism industry are facing problems with competing airlines of other countries, a factor largely attributed to increases in costs and prices.

1.2 As mentioned previously in this brief under the Tourist Accommodation Section, many taxes are levied with price as the basis. Disparity in base price between the Canadian airline industry and its competitors is therefore magnified when taxes are added.

1.3 While profits were made by airlines in 1977, losses have been sustained for several years. The average return on investment during the past several years has not been in excess of 6 per cent whereas a return of at least 12 per cent is required to be healthy, to generate a surplus to pay dividends and to encourage investment on a loan or equity basis.

1.4 The airline industry feels that it has perhaps been singled out in the area of "user pay" policy and has to pay for services which in other sectors of the industry are taken for granted and assumed within the general tax structure i.e. passenger security tax.

1.5 Like other components of the tourism industry, the airline industry is often subject to double or triple taxation which in the long run must be passed on to the consumer.

2. AVIATION FUEL TAX

2.1.1 Aviation fuel represents a major cost to the airlines, up to 20 per cent of the total air cost and second only to labour costs.

2.1.2 While basic fuel prices have risen sharply in recent years, the 12 per cent Federal (ad valorem) tax thereon has resulted in a compounding of this cost factor as the price of fuel has increased, rather than having the tax established on a gallonage basis.

2.1.3 At the same time, there have been exorbitant increases in fuel tax rates imposed by several provinces, of between 40 per cent to 67 per cent.

2.2 The problems are three fold:

2.2.1 The ad valorem tax is tied to the inflationary spiral thereby adding to the cost which must be passed on to the consumer.

2.2.2 The 12 per cent Federal sales tax applied to gasoline on domestic flights but rebated on international flights is somewhat anomalous in that it encourages international flights at the expense of domestic flights.

2.2.3 The provincial taxes on aviation fuel are questionable from the viewpoint of benefits received from the province and also a possible source of friction in bilateral agreements.

2.2.4 Normally companies which pay tax on the price of an end product do not pay tax on the materials used in the productions.

2.2.5 In the air transportation industry, tax should not be applied to the elements which are used to produce the end product, which is air transportation.

2.3 Recommendations

2.3.1 Federal sales tax on aviation fuel consumed in Canada should be exempt, as it is for international. The imposition of this tax in Canada represents double taxation

in a service industry where the travelling public already pays a transportation tax.

2.3.2 Provincial taxes on aviation fuel should be limited, and exempt for international travel.

3. CAPITAL COST ALLOWANCE - NEW AIRCRAFT

3.1.1 Over the past decade, the Canadian tax system has, indeed, been utilized to stimulate the national economy through the granting of significant tax incentives to certain industries.

3.1.2 However, these measures have been almost entirely implemented for the resource and manufacturing/processing industries and others engaged in the production and/or sale of goods.

3.1.3 The incentives include an investment tax credit, accelerated capital cost allowance on fixed assets, reduced income taxes, inventory allowances, etc...

3.1.4 Not only have Canadian airlines not received any of these benefits but, in fact, the Federal Government, in 1976, removed the only significant tax incentive for the Industry by reducing the rate of capital cost allowance on new aircraft from 40 per cent to 25 per cent.

3.2 Important to consider is the comparison with the United States where capital investment is in a favourable position on many counts. For example:

3.2.1 In the United States, a purchaser of machinery and equipment used in a trade or business is allowed to claim as a credit against income tax otherwise payable an amount equal to 10 per cent of the total cost of the equipment.

3.2.2 For most tax payers this Income Tax Credit can be used to offset the first $25,000 of taxes payable and 50 per cent of taxes payable in excess of $25,000.

3.2.3 In 1976, legislation was enacted which allows airlines to offset 100 per cent of the taxes in the years 1977 and 1978, 90 per cent in 1979, 80 per cent in 1980, reducing to 50 per cent in 1983. The credits, if unused, may be carried back for three years or forward ten years, and, if carried forward, are used before the currently generated credit.

3.2.4 Current recommendations in the United States for tax reform have been made that would make permanent the current temporary ten per cent rate, and would establish an offset of 90 per cent of taxes.

3.3.1 As with most components of the tourism sector, it is important to remain competitive with the latest innovations in speed, comfort and safety.

3.3.2 Environmental and pollution control require features which quickly give a degree of obsolescence to planes manufactured.

3.3.3 It is estimated that Canadian airlines over the next seven years will be investing in new aircraft at an estimated total cost in excess of $4 billion, and as much as a cumulative total of $15 billion by 1995, in order to finance new aircraft, to replace old equipment and to meet the needs for growth.

3.3.4 While much of the aerospace industry is in the United States, a certain percentage of components used in the plane are made in Canada thus providing an offset and employment opportunities in Canada.

3.4 Recommendations

3.4.1 Reinstatement of the Federal capital cost allowance for aircraft of commercial air carriers to 40 per cent, or at least provision of an allowance in excess of 25 per cent commensurate with the degree to which more fuel efficient aircraft

have been added to airline fleets.

3.4.2 Extension of the Federal Investment Tax Credit and expansion for definition of Inventory Allowance to the Air Transportation industry.

3.4.3 Removal of the capital cost allowance restrictions regarding the leasing of aircraft by airlines and elimination of the with-holding tax on aircraft lease and loan interest payments to non residents.

4. SPECIAL EXCISE TAX ON AIRCRAFT

4.1.1 One of the main reasons cited by the government in imposing this tax was to conserve fuel. It is claimed that most private aircraft are not high fuel consuming vehicles and use less fuel per passenger mile than do automobiles.

4.1.2 The overall result then is there is in fact no significant saving in fuel in the private category of aircraft operation, where the total amount of fuel used is only 0.3 per cent of all petroleum products used in Canada.

4.1.3 For those contemplating the purchase of an aircraft the requirement for the aircraft in most instances may outweigh the burden of the tax, and the aircraft may still be bought and used.

4.2.1 While having little impact on the usage of gasoline, the added tax is still another cost to be passed on to the consumer which decreases Canada's competitive position in the tourism market. Particularly relevant in this instance are the small aircraft operators instrumental in providing fly-in fishing, hunting and tourist lodge vacations.

4.3 Recommendations

4.3.1 That measures be introduced which will accord to private aircraft operators relief from this Special Tax.

5. AIR TRANSPORT TAX

5.1.1 In 1974, the Canadian Air Transportation Tax was introduced. It covered the purchases for air transport made in Canada to domestic or international destinations. The tax was 8 per cent or maximum $8 for domestic travel and a flat $8 for travel outside Canada.

5.1.2 In 1977 the Canadian Air Transportation Tax was extended to tickets purchased outside of Canada where passengers were to use Canadian airports. However, where a visitor from the United States is subject to an Air Transportation Tax of his own country, Canada has halved the tax on its own Air Transportation Tax and has looked for similar action from the United States. To date such reciprocal action has not been forthcoming.

5.2.1 The general philosophy of some government departments is that the direct user pays as much of the cost as possible. However, given the vast expanse of territory to be covered in Canada it is felt that provision of airport facilities caters not only to the direct user but also to national, regional, social, and economic interests. As such, support is warranted from all interests concerned.

5.2.2 The extension of the Air Transportation Tax does equate the burden of cost to the visitor as well as the Canadian traveller. On the other hand, the extension of the tax to the outside visitor is a deterrent to travel to Canada.

5.3 Recommendations

5.3.1 That tax be removed from the visitor originating outside of the country, or

5.3.2 That the whole amount of tax internal and external be reduced.

6. AIRPORT USER CHARGES - INDUSTRY

6.1.1 Airport user charges comprising landing fees and general terminal costs, etc. are reflected in the cost of air transportation and have been in existence for several years but have been increased significantly over the past ten years in accord with the attempts by Transport Canada to recoup a larger portion of their costs.

6.1.2 Similar increases on recoveries have not been made from other transportation modes (i.e. seaways and railways are highly subsidized) and it is questionable as to whether airport user charges, increased to the extent they have, are appropriate, as similar recoveries have not been initiated in other departments of government.

6.2.1 The main problem faced with respect to the application of the "user" charge is the identification and quantification of the national, regional, social and economic benefit derived by the direct user as opposed to the tax payer as a whole, and clearly addressing recovery to the fair share of government costs that the direct user may reasonably be expected to bear.

6.2.2 The other problem is to ensure that the government only builds and provides facilities and services, the airlines and customers feel are really necessary and for which they are prepared to pay.

6.3 Recommendation

6.3.1 It must be recognized that there are many airports essential to communities but that the volume of traffic is such that they could not be self sustaining. However, the Ministry of Transport should modify its cost recovery objectives to allow for full credit to be given to the national, regional, social and economic benefits and should separate out the cost attributed to the direct user.

7. PASSENGER SECURITY FEE

7.1.1 A passenger security fee of 20¢ per passenger was imposed on air carriers in Canada during 1976 to offset some of the government costs of security at airports.

7.1.2 The security provided by the government at the airports is in addition to the facilities and services provided by the airlines.

7.1.3 The government is currently considering increasing charges for security.

7.2.1 As these charges add to the cost of air transportation, consideration should be given as to whether it is appropriate for the government to levy these additional charges.

7.3 Recommendation

7.3.1 In principle, security is a state responsibility. Police protection is an entitlement of all citizens regardless of mode of transportation used. As such the burden of aircraft security should be borne by all citizens.

8. FUEL THROUGH PUT FEE

8.1.1 When fuel is provided in M.O.T. airports, M.O.T. has a lease or concessionaire arrangement with the distributor.

8.1.2 Part of the lease is a through put charge on gallonage pumped at 1½ cents per gallon on fuel and 5 cents per gallon on oil.

8.1.3 The original charge of 1½ cents per gallon on fuel has been raised to 4½ cents and is likely to be raised to 7 cents.

8.2.1 The through put fee included in the cost of fuel provided is then taxed at the federal sales tax rate of 12 per cent.

8.2.2 The through put fee returns some $13 million to Transport Canada annually in revenue. The 12 per cent Federal Sales Tax applied to fuel used domestically represents a significant $0.75 million burden in questionable circumstances to the air transportation industry.

8.2.3 It is felt that the wording of the Excise Tax allows sufficient latitude for ruling as to what should be included in the cost for tax purposes such that the through put fee could be excluded.

8.2.4 Alternatively the situation might be corrected by a Remission Order.

8.3 Recommendation

8.3.1 That the Department of Finance consider the exclusion of the through put fee charged on aviation fuel from the 12 per cent federal sales tax levied.

MOTOR COACH TRANSPORTATION SECTION

1. INTRODUCTION

The motor coach industry as with other components of the industry, sees itself competing not only with foreign destinations but also with other modes of transportation. In keeping with other sectors of the tourism industry, however, some of its needs are equally apparent in the area of taxation.

1.1 CAPITAL COST ALLOWANCE

1.1.1 A capital cost allowance of 30 per cent is applied to motor coach equipment.

1.2.1 It is important where discriminating visitors are concerned for motor coach companies to be competitive, having the latest in safety, convenience and comfort such as panoramic vision, air conditioning, translation cassettes, etc... As such, obsolescence is also a factor with motor coach transportation.

1.3 Recommendation

1.3.1 It is recommended that an increase in the capital cost allowance rate be applied to transportation companies involved in the tourism industry where busses are used for sightseeing.

2.1 MOTOR COACH LICENSING - PROVINCIAL TAX

2.1.1 Where a motor coach is operational in 3 or 4 provinces, a licence must be obtained for each of the provinces concerned.

2.1.2 The above situation is again an overall contributor to cost which must be passed on to the consumer.

2.2.1 Multiple licensing by provinces is inequitable in that usage of provincial roads by the motor coach concerned is often disproportionate to the licence charge levied and thus attributes a fairly high cost for limited usage.

2.3 Recommendation

2.3.1 It is recommended that provinces should agree amongst themselves that, where interprovincial travel is concerned, the cost of licensing should be on a road mileage basis and proportional to the degree of operation within the province.

3.1 PROVINCIAL FUEL TAX

3.1.1 Currently motor coach companies pay a fuel tax to provinces based on the estimated amount of fuel in the fuel tank at the time of crossing the provincial border.

3.1.2 Reports are required monthly from motor coach companies.

3.2.1 There is at present an interprovincial agreement in effect whereby transportation companies can remit provincial sales tax on a mileage basis.

3.3 Recommendation

3.3.1 That provinces enter into an interprovincial agreement on the remittance of fuel tax similar to that in effect for the sales tax based on mileage.

3.3.2 The recommendation submitted would decrease paper burden of the individual company and create less administration for provincial licensing bodies concerned.

AUTOMOBILE TRANSPORTATION SECTION

1. INTRODUCTION

Automobile traffic comprises the major mode of transportation for visitors to Canada. Approximately 80 per cent of U.S. visitors come to Canada by car.

1.1 Excise Tax on Gasoline

1.1.1 Effective 24 June 1975 the Federal Government imposed a special excise tax of 10 cents per gallon for private cars and other personal uses.

1.1.2 The tax measure was imposed to encourage motorists to be more efficient in their use of gasoline and to generate revenue for the oil import compensation.

1.1.3 The 10¢ per gallon Excise tax is viewed as being a discriminatory tax, attempting to obtain revenue in support of a mutual policy to equalize the price of all petroleum products at the expense of the Canadian private motorists.

1.2.1 Motorists across Canada by the end of 1977 were paying approximately 50 per cent more for regular grade gasoline that they did two years previously with 95.3¢ being the average price per gallon in November 1977 as compared with 63.9¢ per gallon in January 1975.

1.2.2 The 10¢ per gallon excise tax resulted in a 300 per cent increase to the tax differential between the price of a U.S. gallon of gasoline south of the border and the price of an imperial gallon in Canada.

1.2.3 It is understood that of approximately 900,000 claimants eligible for rebate, only 400,000 applied, suggesting that the rebate system might be too complex.

1.3 Recommendation

1.3.1 That the Government of Canada be requested to remove the discriminatory 10 cents per gallon tax on gasoline used by private motorists thereby reducing the higher price of gasoline in Canada than in the United States and increasing the attractiveness of automobile travel in Canada for tourists. If necessary, an equitable 3 cents per gallon might be imposed on all petroleum products to continue generating an equivalent net revenue for the oil import compensation program.

CAR RENTAL SECTION

1. INTRODUCTION

1.1 Car rental companies play an important role in the tourism industry both for business and pleasure. In terms of fly-drive vacations, car rentals are important in that they provide a mode of transportation to many destinations which at this point of time are not geared to mass modes of transportation.

1.1.2 In terms of energy conservation, car rental is seen as an important option in that it provides the availability of a mode of transportation without full time ownership.

1.1.3 Like other components of the tourism industry car rental companies see taxation, whether it be at the federal, provincial or municipal level, as a component of cost which indirectly must be passed on to the consumer and thereby decreasing the competitiveness of the Canadian product.

1.1.4 Like other components of the tourism industry, car rental companies are concerned by what they perceive to be areas of double taxation.

1.2 Rental Cars - Federal Sales Tax on Car Purchase

1.2.1 The cost of new cars is higher in Canada than in the United States. Taking into account the difference in the value of the Canadian dollar vs the U.S. dollar, a Chev. Impala, for example, costs $700 to $800 more in Canada than in the United States.

1.2.2 Approximately $100 of the differential in price is a Special Government tax on air conditioning. A further $150 - $200 in the differential is difficult to explain, for Canadian manufactured cars sold in the United States sell at a competitive price with similarly equipped U.S. Chevs. A U.S. manufactured car on the other hand sells at the higher Canadian price.

1.2.3 It is understood that much of the differential between the cost of the Canadian and U.S. manufactured cars lies in the 12 per cent federal salex tax applied to the manufactured price of the Canadian car.

1.2.4 The addition of extra taxes applicable in Canada but not applicable in the United States our major tourist destination competitor, makes it more expensive for tourists to rent cars in Canada due to higher initial costs, higher depreciation, higher interest charges, higher insurance, etc....

1.3 Recommendation

1.3.1 It is recommended that the application of the federal sales tax to automobiles used for car rental purposes be reviewed by Revenue Canada.

PROMOTIONAL MATERIAL SECTION

1. INTRODUCTION

Promotional material does not apply exclusively to any one component of the industry but in fact transcends most.

1.1 Promotional/Advertising Material - Sales Tax Relief

1.1.1 Many companies publish considerable amounts of literature supportive of the product they have to sell. Where literature is shipped out of the country for promotional purposes abroad, the federal sales tax does not apply.

1.1.2 With the emphasis to retain Canadians in Canada and to explore their own country, there is merit in providing concessions or incentives in the form of tax relief which would allow greater publication of the Canadian product.

1.1.3 Convention and Tourist Bureaux print and distribute promotional and informative literature which is not only used by convention delegates but also by leisure visitors. This would include maps, brochures, etc. and are offered at no cost.

1.2.1 The benefits of such promotional material accrue to many far beyond the direct supplier of the promotional material.

1.3 Recommendation

1.3.1 That consideration be given to exempting the 12 per cent federal sales tax on all printed matter such as brochures, tariffs, etc. which are used by the industry to promote both domestic and foreign business.

1.3.2 In the event that it would be administratively difficult to differentiate between the printing and apportioning of expenditures promoting foreign destinations as opposed to domestic destinations, that consideration be given to exempting Canadian Convention and Tourist Bureaux from paying Federal Sales Tax on the printing of literature where the impact of such promotional material is obviously domestic.

SELECTED DEPRECIATION AND TAX ITEMS

Canada, United States and United Kingdom

	Canada	United States	United Kingdom
Depreciation	Prescribed rates reflecting prescribed useful life.	Taxpayer determines own useful life, rates and method.	Between Canada and United States.
	Leasehold or other improvements cannot be written off faster than life of lease or 5 per cent yearly. Does not permit needed renovation.	Can recognize shorter useful life of particular assets and amortize over shorter period.	1978 Budget proposes hotel building shell receive first year allowance of 20 per cent, balance to be written off at 4 per cent. Major components of building - heating, lighting, elevators, as well as all furnishings may be written off 100 per cent in year of purchase.
	No bonus depreciation for hospitality industry.	Bonus depreciation possible in first year.	100 per cent write-off for plant and equipment, furnishings etc. in first year.
Investment Tax Credit	Applies to "manufacturing" and processing equipment, and buildings only.	Applies to hotel and motel equipment as well as manufacturing equipment.	N/A
Sales Taxes	Taxable both federally and provincially on most purchases (except for food).	No federal tax - many states exempt purchases for resale from tax.	8 per cent V.A.T. - Hotels exempt on all purchases.

SELECTED DEPRECIATION AND TAX ITEMS

Manufacturing vs Hotel Industry
Federal Income Tax and Provincial Tax

Income Tax	Manufacturers	Hotel Industry
Investment Tax Credits -5%, 7½% or 10% Federal (depending on region) -5% Ontario (no longer in effect)	Reduction in taxes payable equal to 5%, 7½% or 10% of cost of new manufacturing and processing equipment.	Application only to kitchen equipment.
Manufacturing & Processing Rate	Reduction of tax rate from 46% on manufacturing and processing profits.	Minimal application - difficult formula to apply - affects only food preparation (not serving) profits.
Corporate Surtax (no longer in effect)	Manufacturers exempt.	Taxable except for small amount qualifying for M&P credit.
111% valuation for capital cost purposes (no longer in effect)	New assets to be used in manufacturing - including buildings.	Minimal application to kitchen equipment.
Special CCA Rates	Classes 19 & 29 - 2 year write-off on manufacturing and processing equipment.	Application only to kitchen equipment - balance at 20%.
3% Inventory Allowance	Useful where large inventories.	Relatively small inventories
Sales Tax		
Federal	Manufacturing and processing equipment exempt FST to licensed manufacturers.	All equipment, furnishings taxable at 12%. Taxable - Hotel bears tax.
Provincial		Taxable - Hotel bears tax.

MUNICIPAL PROPERTY TAXES

COMPARATIVE DATA - CANADA VS. UNITED STATES

1. A comparative micro study of hotels prepared in December 1977, indicated that in 1973 Canadian hotels Municipal Property Taxes were 85 per cent higher than the United States group. This gap widened to 175 per cent in 1977.

% to Sales	1973	1974	1975	1976	1977
- Canada	4.8	4.6	5.2	5.6	6.0
- United States	3.6	3.4	2.8	2.7	2.5
Per Available Room $					
- Canada	501	517	588	629	722
- United States	272	254	242	241	262

2. Municipal Property Taxes rank in Canada as a hotel's third highest operational cost component; in the United States they rank as the sixth or seventh cost component. (Laventhol & Horwarth).

3. Other comparative cost data between Canada and the United States.

	1976 Municipal Property Taxes % of Sales	1976 Municipal Property Taxes Per Available Room
i) Canada		
Large hotel chain (46 hotels, 9655 rooms)	6.5%	$818
ii) United States		
Two large hotel groups (86 hotels, 13,829 rooms)	3.4%	$310
iii) U.S. Lodging Industry-1976 (Laventhol & Horwath)	3.7%	$323
iv) Laventhol & Horwath-1976 Sample of large properties in major cities - per available room average		

Canada	$
Montreal	1,923
Quebec City	1,842
Toronto	1,437
Winnipeg	1,143
Halifax	1,127
Edmonton	896
Calgary	812
Vancouver	790

United States	$
New York	1,188
Boston	1,004
Chicago	608
Philadelphia	533
Washington	396

COST COMPARISONS

SELECTED LIQUOR ITEMS

CANADA VERSUS UNITED STATES

COST PER OUNCE (1)

(Hotel)

CANADA - CANADIAN DOLLAR

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Nova Scotia
Vodka (Smirnoff)	0.2616	0.3100	0.3088	0.2898	0.2955	0.3058	0.3250
Scotch (J. Walker Red)	0.3077	0.3424	0.3850	0.3429	0.3680	0.3768	0.3745
Whiskey (V.O.)	0.2962	0.3532	0.3613	0.3363	0.3245	0.3438	0.3603
Gin (Beafeater)	0.2731	0.3060	0.3240	0.3100	0.3040	0.3375	0.3463

UNITED STATES - CANADIAN DOLLAR (2)

	Mass-achusetts	Minnesota	New York	Illinois	South Dakota	Wisconsin
Vodka (Smirnoff)	0.1919	0.1902	0.1799	0.1722	0.1852	0.1766
Scotch (J. Walker Red)	0.2927	0.2800	0.2797	0.2763	0.2730	0.2637
Whiskey (V.O.)	0.2643	0.2633	0.2580	0.2547	0.2590	0.2447
Gin (Beafeater)	0.2670	0.2487	0.2580	0.2312	0.2507	0.2259

(1) Not Reflecting Additional Case Discounts which vary from 1% - 10%

(2) $1.00 Cdn. = .90¢ U.S.

Schedule V

COST COMPARISONS

SELECTED LIQUOR ITEMS

CANADA VERSUS UNITED STATES

COST PER OUNCE (1)

(Consumer)

	CANADA - CANADIAN DOLLAR					UNITED STATES - CANADIAN DOLLAR (2)				
	British Columbia	Alberta	Ontario	Quebec	Nova Scotia	New York	Mass-achusetts	Illinois	South Dakota	Wisconsin
Vodka (Smirnoff)	0.2606	0.2900	0.2900	0.2913	0.3100	0.2500	0.2500	0.2302	0.2470	0.2569
Scotch (J. Walker Red)	0.3077	0.3200	0.3613	0.3588	0.3373	0.3571	0.3878	0.3738	0.3638	0.3821
Whiskey (V.O.)	0.2962	0.3300	0.3188	0.3275	0.3440	0.3501	0.3524	0.3263	0.3454	0.3554
Gin (Beafeater)	0.2731	0.2860	0.2988	0.3213	0.3305	0.3200	0.3614	0.3087	0.3337	0.3287

(1) Not Reflecting Case discounts.

(2) $1.00 Cdn. = .90¢ U.S.

COST COMPARISONS

SELECTED WINE ITEMS

ONTARIO vs NEW YORK

COST PER OUNCE (1)

(Hotels)

	Ontario Perc. of New York	Ontario Cdn. $	New York Cdn. $ (2)
Chateauneuf Du Pape	235%	0.3916	0.1663
Mumms Cordon Rouge	177%	0.5954	0.3368
Valpolicella	155%	0.1293	0.0797
Mouton Cadet - Red	162%	0.2016	0.1247
Chianti	148%	0.1293	0.0876
Mouton Cadet - White	129%	0.1485	0.1147
Mateus Rose	120%	0.1331	0.1112

(1) Not Reflecting Additional Case Discounts which vary from 1% - 10%

(2) $1.00 Cdn. = .90¢ U.S.

Schedule VII

COST COMPARISONS

SELECTED WINE ITEMS

ONTARIO vs NEW YORK

COST PER OUNCE (1)

(Consumer)

	Ontario Perc. of New York	Ontario Cdn. $	New York Cdn. $ (2)
Chateauneuf Du Pape	173%	0.3847	0.2219
Mumms Cordon Rouge	108%	0.5847	0.5417
Valpolicella	74%	0.1270	0.1706
Mouton Cadet - Red	106%	0.1981	0.1872
Chianti	83%	0.1270	0.1539
Mouton Cadet - White	78%	0.1462	0.1872
Mateus Rose	82%	0.1331	0.1622

(1) Not Reflecting Case Discounts.

(2) $1.00 Cdn. = .90¢ U.S.

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE REPORT

ON

TOURISM INDUSTRY DEVELOPMENT

TOURISM INDUSTRY DEVELOPMENT SUB-COMMITTEE

SUMMARY REPORT AND RECOMMENDATIONS

The Sub-Committee concurs fully with conclusions of the Federal-Provincial Conference of Tourism Ministers as announced January 31, 1978 that governments declare a higher priority for tourism plant development - working with private industry, increase collaboration in programs to assist development, and examine more closely questions of financial assistance and incentives.

Priority and Support by Governments to Tourism Development

The Sub-Committee observes that such priorities are long overdue; that Canada has been losing ground rapidly in the competitiveness of its tourism product in major markets (especially the home Canadian market and in the United States); that tourism is one of the few Canadian industries with real growth potential - taking note that good authorities predict foreign travel expenditures of United States residents will more than double by 1985 (to approximately $20 billions).

But Canada will not capture its share of this market - nor hold significant numbers of Canadians to travel in Canada unless it starts now to identify and concentrate on a series of new and dynamic travel destination areas capitalizing on Canada's unique attractions, supported by an increasingly strong, competitive tourism industry. This will require the attraction of huge investment funds, an increasingly skilled and dedicated manpower force. It will require that governments accept responsibility for fostering a favourable environment for the tourism industry to develop -- indeed for Canada to achieve the necessary improvement in its product, to again compete successfully for its rightful share of the tourism growth market, governments must take strong initiatives in establishing basic confidence in tourism and its importance to the economy and individual Canadians. It will serve governments well to actively accept the role of catalyst and supporter alike, to encourage private industry risk taking initiatives in tourism development.

Investment Needs

Currently a total annual investment of some $1.5 billion from public and private sources is required to meet the needs for facilities and services necessary for travel to and within Canada; and as provided from profits earned and re-invested, and from new capital attracted.

Just to maintain the 1977 share (20 per cent) of foreign travel by United States citizens will require investment funds in the 8 years 1978-1985 of some $5 billions; to regain the 25 per cent share of 1971, will require an estimated $7-8 billions. And this scale of investment only considers that relating to United States visitors! Thus the needs for the support and expressions of confidence by governments to attract such resources in the face of competitive needs. Only by such support, however, can the type of tourism plant be available which will recover lost shares of key world markets growing at the rates indicated.

Financing Assistance

The Sub-Committee generally rejects a "hand-out" policy; it does not believe that short term expediencies and artificial situations should be encouraged which interfere with the normal operation of the free market system. On the other hand, the Sub-Committee believes that the tourism industry has been continuously and seriously discriminated against - largely by being overlooked in many measures of governments - at all levels; and which measures provide various support direct and indirect to other industries. It believes that governments must look to ensuring that such support is provided the tourism industry. Especially needed for the development of this still maturing industry is financial help and help-in-kind in generating more productive governmental/private industry consultation and coordination mechanisms, frameworks for development, research, statistics, technical and planning support; also, and quite particularly, the industry believes that government guarantees supporting the requirements for development funds can be especially valuable, demonstrating the basic confidence of governments in the prospects and importance of the industry.

Recommendations

A series of policy and program recommendations are advanced for tourism development, directed primarily at achieving two objectives:

I - Ensuring the development of a more competitive, more dynamic, better quality of tourism product/destinations - attractions, facilities, and standards of service and hospitality; and

II - making a stronger and more competitive tourism industry in Canada - which can better deliver a product bringing optimum satisfaction to the needs and desires of changing markets; and thereby be more successful and the better contribute to a stronger Canadian economy and increased jobs.

Recommendations as to:

a) Policy as to Roles of Governments in Supporting Development

The Sub-Committee has taken account of a) the major impacts of governments on tourism development by way of legislation and regulation - mostly causing higher costs/prices or otherwise inhibiting development of a competitive product; b) the major impacts (usually beneficial) of key attractions/services provided by governments and supporting tourism directly or indirectly - national parks, historic sites, ceremonials, cultural and recreational attractions, transportation and other services; and c) the capacity of governments for direct and indirect support to industry development, only sometimes directed to tourism development.

The Sub-Committee urges that governments take account in degree of the prime role of the thousands of mostly small businesses attracting and serving tourism, their difficulty in organizing themselves cohesively, and thus their need for recognition and support from governments.

Recommendation #1(a): that Governments accept the challenge to create the favourable environment which is a prerequisite to attracting the investment necessary to tourism development; accept the role of catalysts and supporters.

Recommendation #1(b): that the Minister of Industry, Trade and Commerce with his provincial and territorial counterparts and tourism industry leaders meet with leaders of financial institutions on a national basis, to point out tourism's impacts and prospects for accomplishing national goals, to outline government policies in respect of tourism to portray the opportunities for investment that the future of the industry offers, to encourage the lending community to take a greater interest in tourism, to identify the requisites of lenders for a greater flow of capital to the industry and to consider responses accordingly.

Recommendation #1(c): that as soon as possible the Governments concerned be prepared to make known their policies and priorities as to financing assistance and taxation incentives which can favour investment in tourism-related facilities/projects (as present now or resulting from decisions as to recommendations elsewhere in this Report).

Recommendation #1(d): that governments treat the tourism industry the same as other industry sectors (eg. manufacturing) in their various financial and business development assistance programs or other "help-in-kind" programs.

Recommendation #1(e): that the Department of Industry, Trade and Commerce recognize its key role as the focus of Federal Government responsibility for tourism and reflect that responsibility by providing appropriate resources to its Canadian Government Office of Tourism (CGOT) to allow it to be a centre with professional competence and programs supporting tourism development.

(Out of CGOT's 1978-79 budgets totalling $27 million less than $3 million relate to reinforcing the supply element of tourism. While the CGOT was unfolding an important instrument for assisting the industry and provinces in tourism development with its Travel Industry Development Program (TIDP) resources for this were withdrawn as of March 31, 1976 on account of the Government's restraints policy. The Sub-Committee has no quarrel with the policy of restraint in government expenditures. It seems a question of whether a growth industry with a serious problem as to the competitiveness of its product is the proper place to exercise such restraint.)

Recommendation #1(f): that the Honourable Jack Horner be congratulated on his declared decision to formally change the name of the department responsible for tourism, from the Department of Industry, Trade and Commerce to the Department of Industry, Trade and Tourism; that provincial and territorial governments express similar confidence and recognition of tourism, accord appropriate priorities and continuity of resources to support tourism development, in the light of their own needs and opportunities.

The Sub-Committee concludes that one of the major constraints to tourism development activity is the complicated, slow and over-protective maze of governmental legislation; and regulative agencies. Case studies have demonstrated the inhibiting effects of this process on private enterprise development, with indications that not only the ideas and energies of developers, but the investment funds ready to back these projects are being driven elsewhere - probably out of the country.

Recommendation #1(g): that each of the federal and provincial/territorial tourism departments or agencies be constituted by their Ministers to be "expeditors" and "advocates" to simplify the procedures and ensure prompt handling of applications for tourism-related projects through the appropriate governmental regulatory agencies; where bottlenecks develop, review the problems with an inter-departmental committee (such as the IDCT at federal level).

b) Industry/Governments Consultation on Development

There is a pattern of productive federal/provincial consultation on tourism development (but progress on this currently awaits clarification and decisions of governments concerning priorities and strategies for supporting development). There has been good governments/industry consultation but this has tended to lack depth and continuity. Private industry has had difficulty in preparing and achieving a harmonious voice. Governments have tended to become preoccupied in their own methods of assisting tourism development losing sight of the prime role of the private sector; and sometimes hesitant to discuss plans and policies in advance for fear of raising objections and controversy. Only with increased and continuous consultation over time can goals of improved tourism development be realized.

Recommendation #2(a): that governments give greater recognition to the needs of better consultation with private industry on tourism development policies, strategies, priorities and ways and means of sharing in initiatives for development improvement.

Recommendation #2(b): that governments accept the principle that strong associations are necessary to a strong industry; that the most efficient "delivery system" to industry to accomplish most governmental objectives is through the associations. That governments commit themselves to a system of financial support to associations appropriate to the tasks and without compromising principles.

c) Framework Policies, Strategies and Mechanisms

Over a period of 10 years Canadian governments both federal and provincial have variously declared a higher priority should be given the "planned" development of tourism. Variously strategies and programs have been followed complementing private development. But efforts have been spotty, policies lacked conviction; resources have lacked continuity. The CGOT's TIDP was widely accepted as a mechanism for providing a framework for development, but its resources were lost in budget cuts. Providing some alternative and of increasing value have

been resources provided under DREE General Development Agreements (GDAs) under which Sub-Agreements on Tourism Development have been concluded between 5 provinces and DREE (and IT&C) according to strategies developed by provinces, DREE and CGOT. But there is an urgency for bringing a framework together under which the necessary structure from governments can be related to the realities of private industry development.

Recommendation #3(a): that the CGOT in consultation with provinces/territories and industry formulate forward looking and country-wide tourism development policies with regional emphasis, and a basic framework which will be favourable for provinces/territories and private industry at large to undertake their own initiatives to produce a more competitive Canadian product.

Recommendation #3(b): following through, that provinces/territories and CGOT concert in enabling the provinces and territories to formulate provincial and territorial tourism development strategies (and regional strategies); further refining these again to an increased emphasis on local destination area strategies.

Recommendation #3(c): that such tourism development strategies be kept as flexible as possible to respond to new opportunities; they be made the point of reference for not less than annual consultation with a view to revision, between governments and industry associations - at national, regional, provincial, territorial and local levels.

Recommendation #3(d): that the series of Canada/Province (or territory) Sub-Agreements on Tourism Development under provision of DREE's General Development Agreements (GDAs) be utilized to the full responding to provincial/territorial needs, DREE mandates and participation by the CGOT as the representative of the federal Minister responsible for tourism. That provinces/territories recognize the importance of consultation on these with private tourism industry and move immediately to set up with key industry associations an advisory committee to review strategies, policies, priorities, forms and results of the programs (including the criteria and plan of operation of the financial incentives if any).

Recommendation #3(e): that the CGOT as the federal focus of tourism responsibility strengthen its collaboration with the Department of Regional Economic Expansion, Department of Indian and Northern Affairs, Department of Fisheries and Environment, Ministry of Transport, the Fitness and Amateur Sports Branch of Department of National Health and Welfare, Secretary of State, bi-laterally and via a stronger IDCT (Interdepartmental Committee on Tourism), ensuring incorporation in tourism development policies and strategies of consideration of tourism-related leisure, recreation, and cultural activities.

Recommendation #3(f): that CGOT, in consultation with provinces/territories, work out with Parks Canada necessary strategies taking account of the important place of National Parks and Historic Sites in tourism; without compromising preservation of Canada's rich natural environment, relate these to tourism development policies and take them into account in provincial and territorial development strategies. Recognize an urgency in arriving at wise decisions in the national interest which can be understood by the general public and commercial interests alike.

d) <u>Destination Zone Tourism Development Strategies</u>

In the fast changing and buoyant markets of world tourism, the Sub-Committee observes the competitive impact and success of significant destination zones - old ones keeping pace by greater attention to activities and events, etc., new ones being designed taking account of natural assets and adding high interest activities and service features. Canada has many successful tourism centres. These must be capitalized upon, new ones considered. Success

involves access to and utilization of the best in technology including acceptance of the need for integrated destination areas capable of multi-market appeal making possible the improved economics of all-year operation; a mastering of financing problems.

Recommendation #4(a): that prime attention be given in provincial/territorial tourism development to a "destination zone" strategy, based on population, transportation and all-season market potential; and that the CGOT, in consultation with provinces/territories and industry give a priority to making the technology of "destination areas" and events/attractions - as proving successful in other parts of the world, more available to Canadian industry.

Recommendation #4(b): that the CGOT with a small committee from DREE, provincial/territorial representations, FBDB, and representations of private tourism interests study the possible needs (as emerge from a country-wide development strategy), the cost/benefits and ways and means of funding support for high priority projects in "opportunity" areas.

The Sub-Committee observes that tourists are planning their trips more carefully, seeking information in advance and at destinations to assure themselves more of the interesting "travel experience" and "value for money"; many are gratified with informal personal contact with residents. Better recognizing and satisfying these needs of the market promises greater command of return visitors, offers good possibilities in interesting tourists in "staying the extra day" and then passing on for still further visits in nearby areas.

Recommendation #4(c): that the CGOT with provinces/territories and industry associations review the needs for information at destinations, reception, ways and means of involving tourists in community interaction, etc.; and as findings dictate incorporate in programs - of the local community, industry and governments.

e) Productivity and Standards Improvement

The Sub-Committee observes that the Canadian tourism product, while generally good and often superior in urban areas has tended to deteriorate in many outlying areas. Many tourism related businesses are small - with the strengths of such but frequently displaying problems of management, manpower utilization, turnover, inability to cope with seasonality, lack of incentive - ending in profitability problems and inability to attract financing. Standards of attraction, facilities and service in many areas are compromising ability to compete in today's tourism markets.

The Sub-Committee concludes that the industry with the help of governments must create a steady pressure for productivity and standards improvement, which can result in more profitability for operators, enabling financing and an improved product to attract and service tourists.

Recommendation #5(a): that the CGOT working with provinces/territories and in close consultation with industry develop concepts, outline a cohesive program which can reduce productivity problems to tourism-related businesses to support provincial/territorial tourism development strategies; and for delivery principally via sector associations through "self-help" member programs.

The Sub-Committee concludes there is need for continuing and improving attention to professional skills training and standards; and on management methods and training; more effectively drawing on support from resources/programs of provinces/territories, of the federal Employment and Immigration Commission, FBDB counselling services, Management Advancement Program courses (IT&C via CGOT), and other CGOT assistance; and the continuing professional inputs of the academic community.

Recommendation #5(b): that the Tourism Industry Association of Canada (TIAC) and other industry sector associations, working with governments, develop programs which would ensure the optimum in member benefit from improvement in professional standards and technology. That industry associations accept greater responsibility for leadership in training and education to produce an increasingly qualified manpower force -

working through the provincial Manpower Needs Committees and participating as necessary in the National Advisory Committee (NAC) on Manpower, Education and Training in the Accommodation, Food and Beverage Services Sectors through this advising governments directly or through the CCTO on priority needs, and facilitating effective assistance from governments.

The Sub-Committee notes there is at present no unanimity of opinion as to grading systems, or how such might be run. On the other hand there is agreement that a simple system with cross-country uniformity could have significant benefits in reflecting standards which would be helpful to tourists - providing an incentive for industry improvement. Costs would not be inconsiderable and would have to be weighed against benefits.

Recommendation #5(c): that CGOT, provincial and territorial governments and industry associations take initiatives to consider the needs, benefits and costs of a grading system of facility standards (accommodation and food service, to begin with, considering by standard sector classification); and aiming at cross-Canada uniformity.

Recommendation #5(d): that the industry itself, through its associations, and with such help as possible from governments consider stimulation of plant improvement by infecting the industry, communities and public with the pride of "clean-up/paint-up/tidy-up to welcome our visitors"; with awareness of the importance of tourism to industry and to every Canadian; with a spirit of hospitality and a dedication to good service.

Recommendation #5(e): that provinces/territories in consultation with industry and CGOT consider ways and means of ensuring availability of medium and lower-priced accommodations and standards of same, via farm-vacation homes, bed and breakfast homes, low-cost multiple cabin units; for consideration as projects within provincial/territorial development strategies.

Recommendation #5(f): that the industry - probably via provincial or territorial Manpower Needs Committees or via NAC consult with provincial and territorial tourism officials or CCTO, as to the needs for additional tourism/hospitality education and training facilities of the calibre of L'Institut du Tourisme et de l'hôtellerie du Québec, perhaps one or two regionally located, or perhaps of the New Brunswick mobile type; that industry/governments consider course specialization in subjects/skills deemed urgently needed, based upon estimates prepared by industry.

Recommendation #5(g): that the CGOT and provinces/territories, in concert with associations, assure clear information reaches industry broadly as to programs/activities of governments which may be drawn on by tourism-related industry, directly or via their association. (For example, the details and implications of the series of measures announced over the last several months providing various assistance to small businesses.)

f) <u>Financing Assistance; Tax Concessions/Incentives</u>

Perhaps the two most pernicious problems of Canadian tourism development, go hand in hand - seasonality and financing. General comment on the scale of investment funds which will be required to allow the development of attractions, facilities and services for Canadian tourism to come near to its potential, was recorded earlier in this report; together with the Sub-Committee's attitude to the type of financing support needed from governments.

The initial in-depth study by the CGOT of 1971 revealed that the majority of investment reaching tourism-related businesses came from private sources, many owner/managers; that the special problems of the industry - seasonality, "smallness" of enterprises, dispersion, management practices have not made tourism a popular area for investment among the conventional

investment sources. Some increased financing has been reaching tourism via provincial development corporations, FBDB, SBLA, etc. Generally submissions for financial assistance are poor, lacking facts supporting viability and investment confidence.

The Sub-Committee concludes that the financing problems which must be reduced if the Canadian tourism plant is to develop, will only be solved given continued interest and study of these issues by government and industry. Focus must be given broad financing problems of the thousands of smaller tourism businesses; to the ways of attracting investment to major destination zones; to improving the "fact base" and evaluation and feasibility studies necessary to sound investment decisions.

Policies as to "concessional financing" have not been examined except to conclude that the industry considers it should receive at least equal assistance to any other industry and that governments can justify this considering the latent potential of tourism for widespread economic and job generation. Probably required: clear expressions of confidence by governments in providing guarantees supporting private investment risk-taking related to carefully appraised and high priority destination area projects which emerge from private sector review of area destination strategies, and concessional taxation assistance.

Recommendation #6(a): that following through on Ministers' consultation with the investment community, the CGOT and provincial/territorial tourism departments undertake a progressive information program addressed to capital markets, providing facts as to tourism impacts, emerging development opportunities, etc.

Recommendation #6)b): that efforts be made to expand the knowledge by the industry of financing assistance sources, including provincial development corporations, FBDB, SBLA; that DREE take steps (with CGOT) to increase utilization of the RDIA loan guarantee feature for tourism-related operators; that CGOT seek collaboration of other governments and private agencies, provincial development corporations, FBDB, CASE counsellors, DREE and provincial and territorial tourism financial incentives administrators, chartered banks - in working out ways of helping industry operators broadly to improve submissions for financing.

Recommendation #6(c): that the CGOT take responsibility for early distribution via associations of details of the most recent "Small Business Program" financing and tax concession assistance measures.

The Sub-Committee concludes that special attention is required to finding ways and means of attracting increased financing for the development of resort complexes. Such major tourism destination areas - especially in the United States, are providing tough competition for Canada. Recognizing their potential many governments have devised unique and effective financing assistance, mainly via taxation or regulative measures. Some of these relate to ways of investment-sharing and time-use sharing of the increasingly high cost accommodation facilities required to meet tourism seasonal peaks but which must have established usage as well during other times for clearly defined purposes. If some advantage could be restored to the owning of second "vacation" homes/condominiums, not only personal gratification would be served, but an industry development objective as well.

Recommendation #6(d): that the Federal-Provincial CCTO Committee investigating tax and regulation incentives investigate and report as to:

i-ways and means under which the regulations regarding MURBs (Multiple Unit Residential Buildings) can apply to resort condominium projects;

Present MURB legislation requires that MURBs be 80 per cent residential. The Department of National Revenue interprets the licensing of condominium bedrooms as creating a "commercial" content that makes the 80 per cent residential rule impossible to achieve in a resort condominium where bedrooms or the whole unit are rented to the public;

A simple change in interpretation by Revenue Canada would provide a major impetus to development of resort condominiums and encourage equity participation by many more Canadians in the tourist industry;

ii-accelerated depreciation for high priority area tourism-related facilities as is done in certain areas for a certain time to assist certain industries realize development potential in the national interest;

iii-legislation/regulations which might make use of the "time-sharing" concept, as a means of facilitating investment cost sharing in ownership of condominiums or "vacation" homes as part of resort accommodation facilities;

iv-a seasonal tax credit for tourism operations which can only function for a portion of the year. (Either relating to sales taxes or municipal);

v-ways and means of providing mortgage guarantees to encourage lenders to finance sales of vacation homes;

(In today's society surely the ownership of a vacation home is not a luxury, but a legitimate extension of a family's lifestyle; and if this could be made attractive on a time-share basis allowing for part use of facilities for tourism purposes, not only would the viability of integrated destinations be served but Canadian owners of such would have an investment base in Canada which would hold them here rather than investing in competitive foreign vacation facilities and then investing over time in major foreign vacation expenditures of a family group.)

vi-"capital gains" tax exemption on one's "principal residence" being extended to a vacation home, as a stimulus to tourism and to the construction industry;

vii-making RHOSP applicable to vacation homes;

viii-CM&HC lending programs and guarantees ceasing to discriminate against resort homes both in policy and practice.

Recommendation #6(e): that the industry associations, especially TIAC, study the proposal tabled recently by the Minister of State for Small Business under which VEICs (Venture Enterprise Investment Companies) might be set up by private entrepreneurs with governmental financial guarantees, as a means of ensuring an additional source of venture capital; that the associations present their views before the Government at an early date favouring the proposals or otherwise.

The Sub-Committee further supports the most serious review by governments of the specific tax recommendations of the Sub-Committee on Taxation because of the major source of cost/price increases caused by taxation - often double and triple, and the direct effect this has on prospects for attracting financing/investment needed to assure tourism development.

g) Statistics and Research

The Sub-Committee concludes that tourism industry development suffers from difficulties in having adequate statistics and research to appraise development needs, facilitate planning, feasibility analysis consultation, decision-making, and performance evaluation and appraisal.

Recommendation #7(a): that the tourism industry and associations should establish basic data needs, more adequately acquaint themselves with that now available (with assistance of government tourism authorities), and direct appropriate resources to high priority/use data and studies.

Recommendation #7(b): that governments place a high priority on ensuring a more comprehensive and better quality tourism data base. A regular quantitative travel survey should be funded and carried out by Statistics Canada. Motivational and qualitative studies should continue to be conducted by CGOT to determine market changes and support policy and program decision making as to tourism development.

Recommendation #7(c): that Statistics Canada accord a high priority to continuing to improve international and domestic tourism statistics (in consultation with the CGOT, provinces/territories and industry associations) and ensure that regional data is available disaggregated at least to key zones within provinces/territories.

To conclude the Sub-Committee urges governments to support a continued higher priority to matters of tourism industry development. Without a competitive tourism plant, most efforts of marketing/promotion are wasteful. Development takes time, patience and at this time in Canada's tourism situation, resolve and hard-driving persistence. The Sub-Committee is especially aware that much of Canada's attractions and plant are not coming before today's markets in the form in which they can be best offered for sale by travel trade producers; it is implicit that "development" must proceed in closest consultation with industry marketing and trade authorities to ensure increasingly effective "product and market matching".

In the final analysis, the vast majority of decisions on tourism development are and will be made by private industry; but for these to progress, the confidence and continued interest and support of governments is critical to any early successes.

These views and recommendations are commended to your consideration.

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE REPORT

ON

TRAVEL MARKETING

TRAVEL MARKETING SUB-COMMITTEE

SUMMARY REPORT AND RECOMMENDATIONS

The Sub-Committee on Travel Marketing has examined the overall question of improving the existing methodology. The complexity of the problems created by governmental and industrial parochialism, further compounded by the diverse characteristics of Canada as a product, has encouraged the committee to restrict its scope and concentrate on immediate problems that arise from these two main areas.

In the course of its meetings, the Sub-Committee recognizes that earlier committees or associations have highlighted similar areas and tabled recommendations but equally, are disappointed to learn that little or no action has been taken in the past. Therefore, an overriding recommendation of this report would be that Government recognizes this industry as responsible and that recommendations forthcoming must be examined with the degree of interest that attends similar reports from other sections of the Ministry.

There is a high degree of overlapping functions at Government levels that confuse the private sector, the foreign operator and the consumer, be he domestic or international. The result is a marketing approach that is currently uncoordinated and without common purpose. Existing marketing facilities of Government are being under-utilized particularly in the area of research and analysis, co-ordinated pre-planning is marginal, and there is a lack of integration.

The roles in Travel Marketing at the various levels of Government have to be defined and agreed. The question of who is to prepare and execute the market planning and what area of responsibility is to be maintained by the various levels of Government must be addressed.

The subject of a National Marketing Image and Strategy has to be examined.

The private sector must organize itself to a much higher degree if its very necessary input to marketing Canada on a national or regional basis is to be considered by Government with any acceptable level of credibility.

Existing programs that are currently directed at great or potentially great markets and that are acknowledged responsibly as such, should be improved without delay. A pertinent example is the automobile passenger travelling from the United States.

Strong consideration and recognition must be given by the Minister of Industry, Trade and Commerce through the Treasury Board to the industry's impact on revenue and by providing a realistic budget to the CGOT to allow more aggressive marketing techniques to be created and carried out.

Therefore, the following recommendations are made by this Sub-Committee:

- that maximum utilization of existing governmental instruments be made and that closer integration of federal, provincial and territorial marketing plans be achieved through proper utilization of these instruments, for example: the Canadian Conference of Tourism Officials, the Federal-Provincial Conference of Ministers, and others which currently control regional Tourism Marketing Meetings.

- that Ministers direct their officials to re-examine the existing marketing and planning process and where necessary, insist on better utilization.

- that a policy be developed to facilitate a co-ordinated national approach to tourism marketing bearing in mind the federal, provincial and territorial interests. This policy must clearly define the roles of the various levels of government.

- that Ministers instruct their officials to support a program co-ordinated by the CGOT to develop a fully integrated marketing image and a common theme equally reflected in Government and private sector promotions.

- that responsibility be defined by Governments as to their areas of specific interest as follows:

  - that the attraction of visitors to any Province/Territory or area be the prime responsibility of that Province, Territory or area.

  - that promotion of travel by Canadians within Canada be a cooperative responsibility of the CGOT and the Provinces and the Territories on an agreed regional structure.

  - that CGOT maintain the responsibility of coordinating the marketing of Canada's tourism abroad, with input from the Provinces and Territories to update the CGOT concerning their marketing plans and goals.

- that Governments, provincial, territorial and federal, establish within their organizations a mechanism to receive and act upon private sector input.

- that a leading private sector organization, such as the Tourism Industry Association of Canada (TIAC), be responsible for providing consolidated tourism marketing planning input to governments from the private sector and for disseminating similar information from governments to the private sector.

- that programs be developed to capitalize more on existing local attractions and events, and to encourage and support the development of new attractions and events. (The value of attractions and events in attracting visitors to Canada and to encourage Canadians to visit other regions of their country cannot be over-emphasized. The success of the Calgary Stampede, the C.N.E., Barkerville, Stratford, Klondike Days, etc. etc. speak for themselves.)

- that promotional programs directed at attracting U.S. visitors to Canada, primarily automobile traffic, be strengthened, and that the initial goal should be to extend the length of stay in Canada by one extra day. (It is estimated that if current visitors to Canada stayed one extra day, the travel deficit could be reduced by $400 million.)

- that more, competitively priced inclusive tour packages promoting intra-Canada travel be created through utilization of existing low air fares, ground packages and the coordinated promotional dollars of industry and Government to ensure high impact promotion of Canada to Canadians.

- that the CGOT be recognized in its capacity as co-ordinator of Canadian tourism and be given a budget that is realistic and in keeping with the revenues generated by the industry for Canada.

- that the provisions of Québec Bill 101 which make mandatory that travel literature be printed unilingually in French and in separate form, unilingually in English (i.e., two separate brochures), constrain domestic travel promotion because few of the remaining provinces and territories have their travel literature available in such a separate form and find that the Bill's provisions accordingly create an additional expense.

That the Québec requirement that members of the travel trade wishing to do business in Québec must have a registered office in Québec adds an additional expense and is accordingly a restraint on domestic travel promotion.

That in order to facilitate domestic travel it would be desirable for all promoters in Canada to have their travel literature available in both official languages.

APPENDIX "A" TO THE

REPORT OF THE

TRAVEL MARKETING SUB-COMMITTEE

CANADA MARKET INPUT

TRAVEL MARKETING SUB-COMMITTEE

A. MARKETPLACE TODAY

1) Problems

a) Environment

- High taxes and minimum wages.

- Perception of high prices in Canada compared to other countries especially the United States.

- The Canadian traveller, not fully appreciating the intrinsic value of a vacation in his own country, is therefore unable to perceive properly its advantages.

- General attitude towards travellers has deteriorated throughout Canada - visitors do not have the feeling of being welcome.

- Impossibility to compete with sun destination during winter.

- High inflation and unemployment.

- The lack of success in increasing shoulder season travel.

- Decrease of inter-provincial travel.

- A lack of a suitable, efficient information system for the Canadian consumer and travel trade.

b) Direct Competition

- Share of vacation trips by Canadians to Canada has been dropping in recent years primarily in favor of the United States.

- Availability of United States and Overseas destination charters (ABC's and CCF) exceeds largely the availability of charters for Canadian destinations (ABC's and CCF).

- Price structure of air fare to foreign (including domestic United States) destinations more flexible and more appealing.

- New routes to the United States (i.e. Edmonton - San Francisco).

- Increased competition from USTS - States and other United States regional organizations.

c) Canada Product

- The lack of automobile tour packages.

- The lack of support from the trade in promoting and selling Canadian packages.

- Lack of budget and medium priced accommodation.

- The lack of plant facilities in some areas and at peak season.

2) Opportunities

a) Environment

- The Canadian currency situation making travel outside Canada more expensive.

- Action taken by some provinces to improve competitiveness of Canadian product i.e. room tax.

- The growing awareness by Canadians of Canadian destinations.

- Increase in duration of Canadian vacations.

- Increase in number of multiple trips taken by Canadians.

b) Canada Product

- Recent introduction of low cost air fares within Canada.

- Recent introduction of "So Much To Go For" discounted tour packages.

- Recent introduction of automobile package tours.

B. 1978/79 MARKETING THRUSTS

- Target market - adults with households income of $15,000/50/50 male/female.

- Advertising to be "information-intensive" - will depict travel within Canada as being varied and possessing a wide range of worthwhile vacations experiences within their own region and the rest of Canada - multi-page insert approach only.

- Priority to promote the "So Much To Go For" tour product both to the consumer and the travel trade.

C. NEW DIRECTIONS - WHERE WE MIGHT GO?

- An expanded and improved "So Much To Go For" tour product reaching more areas of Canada with greater emphasis on automobile travel.

- Installation of a nation wide information system possible in the form of toll free line.

- A major Canadian destination awareness advertising campaign using all print and electronic media components in order to "saturate" the Canadian market.

- A return to consumer oriented activities i.e. consumer travel shows to reach more adequately the car travellers.

- In certain areas of Canada an expansion or enlargement of our Consortium seminars (i.e. Henry Davis type show).

UNITED STATES MARKET INPUT

TRAVEL MARKETING SUB-COMMITTEE

A. MARKETPLACE TODAY

1) Problems

a) Environment

- United States Tax legislation affecting conventions.
- Lack of promotional air fares and charters from the United States to Canada.
- Travel Price Index 10 per cent higher in Canada than for United States.
- We receive approximately one-half of American outbound visitors, but only 18 per cent of total spending abroad.

b) Direct Competition

- Travel to Europe increasing.
- Domestic and European air charters increasing.
- 11 new United States air gateways to Europe.
- Bilateral agreement between United States and Mexico.
- Increased travel promotion activities by State travel offices.
- Amtrak fares decreased.
- Opening of New Jersey gambling casinos.
- Domestic competition- United States carriers.
- Liberalization of United States domestic air fare structure.

c) Canada Product

- High price of Canada travel products.
- Canadian wage/cost position vs United States (about 21 per cent higher than in United States).
- Provincial sales tax 3-4 per cent higher in Canada (temporarily relieved); Municipal sales tax higher, gasoline tax higher.
- Quality of service, visitor reception, and value for money spent being questioned by visitors.

2) Opportunities

a) Environment

- Growth of consumer ages 20-49.
- Travel potential of senior citizens.
- Greater numbers of working women.
- Proposed new customs exemptions for returning United States citizens.

- Projected increase in international travel.

- Popularity of recreational vehicles.

- Growth of younger age groups travelling to Canada.

- United States median family income is now $15,500.

- Resilience of automobile travel despite increased fuel costs.

- Growth of travel agency dollar volume.

- Expansion of credit card usage.

- Largest segment of travellers are families earning $15,000 to $24,999.

- Travellers under 44 years of age represent 63.5 per cent of total travellers.

- 81 per cent of 1976 meetings were corporate meetings.

- Canadian dollar devaluation.

- United States domestic travel is booming.

- Provincial and Private Sector activity in marketplace.

b) Direct Competition

- Growth of United States domestic air travel, particularly OTC's, ITC's and ABC's.

- Wide use of toll-free 800 numbers.

c) Canada Product

- Introduction of low cost air fares within Canada.

- Introduction of "So Much To Go For" discounted tour packages.

- Introduction of automobile package tours.

- New air routes from East, South and Southwest.

- Introduction of super budget fares from Canada to United States.

B. 1978/79 MARKETING THRUSTS

- Advertising shift to vacation experiences (benefits) vs destination. We are out of TV and into magazines, newspapers and radio. We are using a format of three successive ads to extend reach and encourage partner participation.

- Target market-adults who have attended college and/or $15,000 household income, or managerial, professional, or clerical sales.

- Since nearly 70 per cent of our income comes from the United States, our resources are allocated on the same basis, i.e.,

Market Research	$ 220,000
Advertising	4,371,000
Direct Marketing	1,977,200
Publicity/Promotion	1,034,100
Travel Trade Relations	692,200
Meetings & Incentive Travel	314,500
Field Offices	358,200
Market Development Management	80,100
TOTAL	$ 9,047,300

- 1978 will see an increase in the level of responsiveness to Provincial and Private Sector needs in our marketing program.

- A shift in some markets to extension of product sale rather than new development.

- Continued market penetration with the travel trade using our Co-operative Product Marketing technique.

- Increased priority will be placed against the automobile traveller (not promoting use of auto, but meeting demand and selling benefits to each destination) through the further development and sale of auto package tours.

C. NEW DIRECTIONS - WHERE WE MIGHT GO?

- A massive promotion in co-operation with the AAA's in the U.S. to market the CAA, Open Road Automobile Package Tours.

- A doubling of our United States image, advertising (magazines and TV only).

- Redeployment of local markets advertising campaigns funds (radio and newspaper) plus a substantial increase to institute an open co-operative promotion program (particularly advertising) with increased United States tour operators (the one qualification being that the products are of the "super" discount variety - "So Much To Go For" concept).

- Installation of a nation-wide phone number providing the travel information service with an immediate (within 48 hours) response to consumer needs.

- A revised program to reach selected consumer group influencers.

- The establishing of special developmental programs to take advantage of new tourism potential primarily in the Sunbelt market.

- Shifting of CGOT resources (beginning with a pilot advertising program) from the border areas with concentration in the new development areas offering best potential.

- The establishment of a "Canada Travel Mart" (Henry Davis style) with Provincial and Private Sector partners as a Travelling Product Mart twice yearly.

OVERSEAS REGION INPUT

TRAVEL MARKETING SUB-COMMITTEE

A. MARKETPLACE TODAY

Although our various overseas markets are quite different from each other and must be treated in different ways, the following statements generally apply.

1) Problems

a) Environment

- Limited capacity for air passengers in peak seasons.
- Less advantageous fares and regulations for intercontinental flights.
- Foreign national airlines' low priority for promoting travel to Canada.
- Fragmented approach to developing markets.
- Decreased effective buying power of almost static budgets.
- Canada is not a leading nation where mass media headlines are concerned.
- Among travel trade, Canada has reputation for strikes and bankruptcies which impact on tourism.

b) Direct Competition

- The range of "discounts" the United States and other destinations offer, and the strength and effectiveness with which they are promoted.
- Greater reliability of climate and length of "season".
- Significantly greater resources many competitive destinations pour into our primary overseas markets. The USTS spends double or triple what CGOT does in most of these markets.
- The flexibility with which competitive destinations can use their resources.
- Greater accessibility.
- Competition among commercial carriers from our primary markets to destinations with which Canada must compete.

c) Canada Product

- Our "share of market" rather than "expand market", and our "high mark-up/low volume" rather than "low mark-up/high volume" philosophies.
- Poor facilities for languages, currency exchange, etc. for foreign visitors.
- Canadian travel industry people who travel overseas to develop markets but are poorly prepared, or really on a junket, or don't follow-up on commitments made.
- Plant and facility operators who will not pay commissions, offer volume discounts or otherwise negotiate with foreign tour wholesalers, etc.;
- Those who will not commit to space and prices far enough in advance for overseas wholesalers' planning schedules -- this includes our international air carriers.
- In many cases Canada can not offer the amount of facilities which volume wholesalers require.

- Lack of aggressiveness and professionalism, especially in sales of Canada's plant operators and their staffs at all levels.

- Lack of national information/reservation system.

- Widespread, varied and fragmented plant makes market development co-ordination difficult, and objectives and priorities for overseas markets hard to establish.

- Much effort is spent promoting what overseas markets won't buy.

- Lack of vertical integration.

- Our surface transportation equipment, services and schedules are not of top international standards.

- Limited availability of promotional material and aids specifically designed for each primary Overseas market (literature, films, etc.).

- Lack of precise knowledge of value of tourism generated out of overseas markets to Canada.

2) Opportunities

a) Environment

- Ethnic affinities.

- Technological advances are shrinking distances and making improved communications possible.

- High degree of affluence (and fairly recently attained) both in terms of discretionary income and leisure time.

- Travel is considered a necessity or right rather than a luxury by more and more people.

- Higher education standards make travellers want more than the 4 S's. They want mind-broadening and even skill-developing experiences.

- Increased urbanization in our prime overseas markets results in a desire for nature, space, clean and safe.

- People now begin travelling earlier in life and continue until they are older. Many have flown.

- In general, Canadians and Canada have a good reputation.

- Sophistication of travel promotion/sales systems and techniques.

- Increased need for international meetings.

- Need to motivate people other than by cash incentives.

- Low value of Canadian dollar.

- Canada is high profit destination for travel trade to sell, especially for wholesalers now that our dollar has dropped and provincial sales taxes have been reduced.

b) Direct Competition

- Except in comparison with the United States, Canada is competitively priced in its class.

- As noted above, Canada is high, profit destination for trade to sell.

- Because people tend to visit a region or two at a time, Canada as a whole will have a longer "product life" than almost any other destination.

- Unrest in other countries tend to rule them out as vacation destinations in the minds of potential visitors and the travel trade.

c) Canada Product

- For nature, space, clean, safe, Canada's image is tops.

- Greater interest in overseas markets.

- By-and-large our man-made plant suits the needs of foreign visitors fairly well.

- Facilities and services for activity-oriented vacations are increasing and improving.

- Influence of immigrants from our primary overseas markets (especially Europeans) who now work in the tourism industry in Canada.

- More liberal drinking laws and laws restricting entertainment.

B. 1978/79 MARKETING THRUSTS

- Advertising approaches in Europe being thoroughly reviewed by new ad agency network. In all 7 primary overseas markets probability of advertising Canada by regions. Also of developing ads which can be used for more than one year, so that our range increases and production costs stay down. Redoubled efforts to integrate plans and common theme with others.

- Increased activities in co-operation with and support of the travel trade in their effort to reach high-potential consumers. Tested well in 1977/78. (Will not apply in Mexico/Latin America and Australia.)

- We have new tour development programs and tour sales development programs. In Mexico/Latin America, Australia and the Netherlands/Nordic countries new tour development will be emphasized. In the United Kingdom, German-speaking Europe and Japan tour sales development will be stressed. In French-speaking Europe there will be almost equal balance.

- Consortia will be expanded in all overseas markets and applied to other than travel trade related programs. The level of trade fam tour activities will be maintained but fewer tours will be strict product testing tours.

- In European markets will identify and quantify the needs of those who can hold meetings in Canada, and then begin to systematically develop that interest into business. This will include activities with Canadian members of international organizations based in Europe.

- Efforts will be directed to exploit harnessing the capacities and abilities for tourism promotion which the Canadian government has in overseas markets where the CGOT does not have active programs.

- Of the roughly 2½ million dollars CGOT spends overseas, the United Kingdom and Germany get the largest shares, followed in order by Japan, France, the Netherlands, Mexico and Australia. Approximately 75 per cent of our dollars are spent against consumer markets, 20 per cent against the travel trade, and 3 per cent in research and 2 per cent in meetings and incentive travel promotion.

C. NEW DIRECTIONS - WHERE WE MIGHT GO?

- Co-operative advertising cost-shared with Canadian public and private sector interests.

- Support in literature and display material production.

- A national information/reservation system -- Canada's if available, otherwise we'll get Canada into systems other nations are setting up.
- Split "Rendez-vous Canada" into two: one for North American buyers in early fall, one for Overseas buyers in May.
- A pilot project within Canada to inform our plant operators of potential in overseas markets and how to exploit it to the fullest.

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE REPORT

ON

WAGES AND RELATED LEGISLATION

WAGES AND RELATED LEGISLATION SUB-COMMITTEE

SUMMARY REPORT AND RECOMMENDATIONS

A. INTRODUCTION

At the outset the Sub-Committee would like to state clearly that the interests of the industry will be best served by ensuring a strong, continuous and highly skilled labour supply.

The Sub-Committee is not advocating the payment of low wages to workers in the hospitality industry. We feel that it is a responsibility of the industry associations to urge operators and owners to ensure that their employees are being paid an adequate wage commensurate with their professional abilities and their contribution to the profits of the organization.

Irrespective of what changes take place in legislation if, having been placed in a position to improve earnings, the industry is not willing to ensure that employees are paid a better than living wage then we will continue to have attitudinal and service problems in the hospitality industry.

However, certain of the current minimum wage and labour standard legislations have created a situation in which labour costs have escalated sharply especially in contrast with competitive destinations in the United States.

Background

Minimum wage and labour standard legislation have come into being over the years both in federal and provincial jurisdictions in an attempt to ensure protection for the worker. To avoid exploitation either in terms of wages or in terms of conditions of work, legislation has been enacted in the areas of minimum wage, hours of work, safety standards, youth labour legislation, overtime, statutory holidays, etc. Originally, labour standards were established for each of the industrial sectors or types of labour. However, in an attempt to ensure commonality of protection and to facilitate enforcement of regulations, many of the standards were brought to a common level and now apply to all workers and in all industries. It is because of this move away from sector-specific regulations that the tourism industry finds itself, in some instances, constrained by the standards that exist today and under intense cost pressure because of these standards.

Much of the tourism industry in Canada is seasonal in nature. Many tourist operations either open in the late spring and close in the early fall or bring on the bulk of their staff in the summer season (in the case of ski resorts the winter season) even though they remain in operation year round.

On those days which are traditionally observed as holidays by Canadians and those in the work force, i.e., Labour Day, New Year's, Easter, etc., the hospitality industry in this country is expected to provide full services and the demand for those services far exceeds that on the normal work day during the week or even during the weekends. This degree of service is expected by the travelling public and by those who are enjoying a leisure time in their own cities as this is one of their leisure pursuits and one which they would not like to forego during a holiday weekend.

Employment in the hospitality industry centres around a core of full-time, seasoned and professional employees. However, a large bulk of the employees in the industry, because of its seasonal nature and peak demand periods, is part-time or seasonal. Employees tend to be those entering the labour market, those seeking a second family income, or students.

Because of the nature of the industry, it demands extended hours of service to the public; a restaurant or a motel cannot close its doors at 5:00 p.m. as can an office or a retail store, but must remain open from early morning until late at night to give the service that is required by the consumer.

Gratuities are a way of life for a portion of the employees in the hospitality industry. It is customary and widely accepted to give to any of those who provide a personal service to the traveller, a waiter, waitress, bartender, etc., a gratuity which can sometimes extend to as much as 15-20 per cent of the cost of the product purchased. This income is a personal income

to the employee and is regarded by governments as a taxable income.

The hospitality and tourism industry is labour-intensive, extremely heterogeneous and has a heavy focus on seasonal operations. Because of its uniqueness the labour standards and minimum wage legislation currently in place throughout the jurisdictions in Canada have an adverse impact on the industry in many cases. The normal restaurant or motel presently offers a minimal return on investment, often less than half that offered by the purchase of Canada Savings Bonds. Labour costs, as a percentage of gross revenues, in the industry average from 30-40 per cent and in some cases have been known to go as high as 48 per cent. It can easily be seen that any legislation or regulation which impacts on labour costs, whether it be minimum wage or regulations governing the maximum period of time an individual may work in the course of a week, can cause a pressure on the consumer cost of the product because of the high proportion of labour costs involved.

Much has been said of the fact that the Canadian tourism product, whether it be a hotel room or a restaurant meal, is much higher in cost than the same product purchased in the United States. This is to a certain extent explained when one looks at the comparative costs of labour in the two countries. The lower minimum wage throughout the United States and the advantage of a tip differential in several states keeps the U.S. tourism product selling price substantially below that which could be offered in Canada. Annex "1" shows a comparison of labour costs in the United States and in Canada using the minimum wage and the tip differential as a guideline.

Even when we take into consideration the fact that fringe benefits are more costly for the employer in the United States than in Canada, Annex "2" shows again that the overall labour bill is much less expensive in the United States.

Although it is true that the Canadian hospitality industry has kept many of its employees at or near the minimum wage in the past, this is primarily because of the high labour content of our product. There is no question that seasoned and professional employees should be, and in most cases are, receiving a pay rate which exceeds the minimum wage. One of the major problems with the minimum wage is not only the effect that an increase in minimum wage would have upon employees who are presently being paid the minimum wage but the fact that minimum wage changes cause a ripple effect throughout the establishment. In most cases employees' hourly earnings are set up in step fashion using the minimum wage as a base line. Therefore, any change in the minimum wage will effect the salaries of everyone in the establishment, increasing them commensurately. This is especially true in establishments with unionized employees where in many instances, the union contract specifies a rate of pay as a percentage above the minimum wage. Therefore, it is quite obvious that this particular section of the product cost in the tourism and hospitality industry is one that is extremely sensitive. Any changes act to increase the cost of that product to the consumer.

It is with this in mind and having reviewed the labour standards and minimum wage regulations in all jurisdictions in Canada, as well as comparing minimum wage and labour standards in Canada with those in the United States, that the Sub-Committee makes the following recommendations.

B. RECOMMENDATIONS

1. Minimum Wage

As has been pointed out earlier, the wage component of total cost in the hospitality industry, especially the food and beverage sector, represents 30-40 per cent of gross sales. In addition, it has been common both in union contracts and otherwise to negotiate hourly rates using the minimum wage as a base, eg, dishwashers - minimum - 10 per cent, waiters - minimum - 20 per cent, cooks - minimum - 35 per cent, etc. This situation is even more exaggerated in British Columbia (see Annex "2"). As a result, changes in the minimum wage have affected the pay not only for those at the minimum but also for all those above the minimum. This has resulted in a serious pressure on one of the most sensitive cost areas in product pricing and has had a serious impact on consumer cost. This is best known in examining the percentage increases of Canadian minimum wage rates versus those in the United States (Annex "3").

On this basis the problem of cost competitiveness with the United States has been further exacerbated. Although proposals have been put forward to increase the U.S. minimum wage it will take four or more years to reach parity, given no change in the Canadian minimum wages.

Recommendation

Based on the above it is recommended that:

Governments should be sensitive to any changes in the minimum wage recognizing the competitive position of the Canadian tourism product and the fact that traditionally, in the hospitality industry, all wages on scales above the minimum wage are increased accordingly when the minimum wage is increased.

2. Tip Differential

As noted earlier in this report, a significant portion of the employees in the hospitality industry receive a large percentage of their annual income through gratuities. Tipping has become a norm in North America and in most full-service operations a gratuity of 10-15 per cent of the total bill is usually given the employee serving the customer. Earnings from tips can range from 25 per cent to over 150 per cent of hourly earnings depending upon the establishment, average meal or bar bill and the employee's ability.

Gratuities are considered a taxable earning by government and Revenue Canada has pressed for full and accurate declaration of gratuity earnings. Such earnings do not normally pass through the hands of the employer (except in the case of those added to credit card purchases wherein normally the employer reimburses the employee shortly thereafter and absorbs the resultant cost of carrying the extra credit).

Because of the significant earnings represented by tips, the U.S. Government and many state jurisdictions in the United States have recognized this fact through a tip differential in the minimum wage. Two Canadian provinces, Québec and Ontario, have done likewise. An analysis of tip differential and its effect on the wage cost to the employer is outlined in Annex "1".

This tip differential legislation places additional pressure on the cost competitiveness of the Canadian travel product vis-à-vis that of the United States and application of Canadian minimum wage standards to those receiving gratuities is not required to "protect" the earnings of those employees, therefore;

Recommendations

i. It is recommended that appropriate wage legislation be amended to establish overtime, tip differentials in amounts ranging upwards of 25 per cent of the minimum wage for employees receiving gratuities in full-service restaurants, hotels and lounges. (This should not be done by freezing the tip differential minimum e.g. if minimum wage increases by $.20 then tip differential minimum should increase by say $.05.)

ii. Considering the fact that gratuities are considered taxable personal income, it is recommended that federal legislation regarding Canada Pension Plan, Unemployment Insurance and Taxation be amended to ensure consideration of gratuities in the calculation of CPP and UIC payments and benefits. The employee would have the option of making full payments to UIC and CPP based on his or her personal earnings through gratuities.

These recommendations will result in an improved cost position for the employers, lower costs for the customer, protection for the employee re CPP and UIC and increased income via taxation and UIC-CPP benefits for governments.

3. Statutory Holidays

Wage legislation and labour standards, both federal and provincial, recognize the requirement that fully employed workers have the right to enjoy those statutory holidays brought into being by governments. To discourage holiday operations and provide compensation for employees who are requested or directed to work on statutory holidays, most jurisdictions have legislated a premium rate of pay for those periods. This premium rate varies from jurisdiction to jurisdiction. The premiums range from a day off in lieu, time and a half, double time to double time and a half as compensation.

As noted earlier the hospitality industry is one that is expected to serve the public on a continuing basis and demand is greatest during such statutory holidays when travel and

entertainment are sought, especially in seasonal operations. Because of the high ratio of wages as a percentage of gross sales - 30-40 per cent - legislation which requires the employer to pay double time or double time and one half produces a wages to gross sales percentage of 60-100 per cent. This has resulted specifically in an increasing number of food and beverage outlets closing down on statutory holidays rather than facing a loss.

Because of the special requirements of the hospitality industry, the province of New Brunswick has addressed this problem in its legislation.

Recommendations

Because of the service requirements, wage/sales structure and demand timing of the hospitality industry it is recommended that:

i. Legislation regarding statutory holiday pay be amended to read: "Where am employee in a full-time position in a hotel, motel, restaurant, resort, tavern or other continuous service operation in the hospitality sphere, and the employee, because of the nature of the operation, is required to and does work on a public holiday, the employer shall pay the employee one and one-half times his regular rate or pay him his regular rate and substitute a mutually agreed upon compensatory day off in lieu".

ii. That legislation be amended to exempt "seasonal" employees in the hospitality industry from legislation requiring additional compensation for working on statutory holidays.

4. Minimum Wage Rates for Young Workers and Students

Because of the seasonal nature of the hospitality industry, its continuous operation and peak demand on holidays and weekends, the industry provides sizable employment opportunities for part-time and student summer employment. The hospitality industry is the major employer of Canadian students in the summer season and for many provides the tuition required for university and college.

Student or youth minimum wage rates are in effect in all jurisdictions except New Brunswick, Newfoundland, Sasktachewan and the Yukon. The rates vary from $2.15 (Ontario) to $3.07 (Québec) and cease at ages of 17 or 18 depending upon the jurisdiction (Annex "4"). In some cases age is the deciding factor, in some cases student status after the age of 18. In many instances this means a high school student will get a job over a university student because of the differential. In most cases these young people do not continue at the minimum, but are raised above it as they gain experience.

Recommendation:

Recognizing the need for young seasonal workers in the hospitality industry and the importance of these summer earnings for college and university students, it is recommended that:

Legislation be amended allowing minimum wage rates for young workers and students to apply to all students in seasonal hospitality industry positions irrespective of their age.

5. Hours of Work

Because of the nature of the hospitality industry, especially those seasonal operations which open in the late spring and close in the early fall, certain peak activity periods occur, i.e., pre-opening week, close-down week, July 1st week, Labour Day week, wherein long hours are required to prepare for or serve the travelling public.

In all jurisdictions maximum daily and weekly hours of work are legislated (Annex "5"). Beyond these hours a premium overtime rate must be paid to the employee. Although normally this would cause no major problems for the hospitality industry in urban areas, seasonal operations are affected by the peaks and valleys noted above. In some jurisdictions these situations are compensated for by an "averaging" clause in the legislation which enables an employer to average hours over a period of time from 2-13 weeks, upon application to the appropriate Ministry.

This "averaging" clause benefits the hospitality industry as it can compensate for peaks and

valleys in service demand. However, the requirement to submit requests for averaging and the time frames should be clarified for the hospitality industry.

Recommendation

Based on the above it is recommended that:

Federal, provincial and territorial legislation be amended to allow automatic full seasonal averaging of hours worked by employees occupying seasonal positions in the hospitality industry and that notification of "averaging" can be made at the beginning of the season, and required reporting completed within 30 days of termination of employment.

C. IMPACT

It is very difficult to give an accurate analysis of the cost impact of these recommendations on the hospitality industry either in terms of operator costs or in terms of consumer costs. However, it is obvious that if such recommendations are implemented it will lead to a more flexible operation in the industry and a capacity to improve the profit margins of operators (which now average 3-4 per cent return on investment). This, along with other changes in tax structure, regulatory inhibitions, etc., would allow a more stabilized consumer price and also the capacity for the employer to pay commensureately higher wages to professional employees.

The recommendations would slow the escalation of the wage costs in the hospitality industry in Canada versus the United States and would lead over time to a comparability of wage costs and, therefore, a better competitive position for the Canadian tourism product.

Annex "I"

MINIMUM WAGES
Adjusted for Tip Differential

Ontario & Québec vs U.S. States ***
Canadian Dollars

Year		67	68	69	70	71	72	73	74	75	76	77
Ontario*	$	1.00	1.00	1.30	1.50	1.65	1.65	1.80	2.25	2.40	2.50	2.50
Québec**		-	-	-	1.15	1.25	1.30	1.40	1.80	2.30	2.65	2.65
New York		1.13	1.21	1.21	1.36	1.31	1.29	1.30	1.37	1.47	1.58	1.68
Ohio		0.68	0.68	0.68	0.66	0.64	0.62	0.63	0.62	0.81	0.94	1.10
Wisconsin		1.21	1.18	1.18	1.28	1.24	1.22	1.20	1.38	1.53	1.55	1.73
Illinois		0.76	0.75	0.75	0.73	0.71	0.69	0.80	0.85	0.97	1.04	1.21

* New tip differential of 15¢ effective March 76 in Ontario.
This differential applies only to employees in liquor licensed areas.

** Québec tip differential effective since August 72, presently 50¢ hour.

*** Federal Minimum applies where State minimum is less.

MINIMUM WAGES
Adjusted for Tip Differential

Canadian Provincial vs U.S. Federal

Year	67	68	69	70	71	72	73	74	75	76	77
U.S. Federal											
Adj. to Cdn. $	0.75	0.86	0.86	0.83	0.81	0.79	0.80	0.98	1.07	1.13	1.20
Unadj. " " $	0.70	0.80	0.80	0.80	0.80	0.80	0.80	1.00	1.05	1.15	1.15
Ontario	1.00	1.00	1.30	1.50	1.65	1.65	1.80	2.25	2.40	2.50	2.50
Québec	-	-	-	1.15	1.25	1.30	1.40	1.80	2.30	2.65	2.65
British Columbia	1.10	1.25	1.25	1.50	1.50	1.50	2.00	2.50	2.50	3.00	3.00
Alberta	1.15	1.25	1.25	1.40	1.55	1.55	1.75	2.00	2.50	2.75	3.00
Saskatchewan	-	-	-	-	-	1.70	1.75	2.25	2.50	2.80	3.00
Manitoba	1.10	1.15	1.25	1.50	1.65	1.75	1.90	2.15	2.30	2.60	2.95
Nova Scotia	1.10	1.15	1.25	1.25	1.35	1.55	1.65	1.80	2.25	2.50	2.75

Annex "2"

COMPARISON OF WAGES AND BENEFITS
Tipped Employees

Canadian Provinces vs United States

	Ontario	Québec	British Columbia[1] Minimum	British Columbia[1] Htl. Rate	New York	Ohio	Wisconsin	Illinois
Assume working 2000 hrs p.a. at Min. rate	$2.65/hr	$3.15/hr	$3.00/hr	$5.79/hr[3]	$2.42/hr	$2.41/hr	$2.41/hr	$2.42/hr
Maximum Tip Credit	0.15	0.50	Nil	Nil	0.50[2]	1.21	0.60	1.21
Net	$2.50/hr	$2.65/hr	$3.00/hr	$5.79/hr	$1.92/hr	$1.20/hr	$1.81/hr	$1.21/hr
Annual Earnings	$ 5,000	$5,300	$ 6,000	$11,580	$ 3,840	$ 2,400	$ 3,620	$ 2,420
Vacation Pay	200	212	240	463	77	72	145	97
Public Holidays	140	170	240	463	108	58	87	58
Sub Total	$ 5,340	$5,682	$ 6,480	$12,506	$ 4,025	$ 2,530	$ 3,852	$ 2,575

1 For most hotels in British Columbia Union rates apply.

2 New York State Maximum Tip Credit goes up to 70¢/hr.

3 Rate for beverage area employees $5.79/hr. Food area employee rate: $4.50/hr

COMPARISON OF WAGES AND BENEFITS

Tipped Employees (Cont'd.)

Canadian Provinces vs United States

	Ontario	Québec	British Columbia Minimum	British Columbia Htl.Rate	New York	Ohio	Wisconsin	Illinois
Benefits								
Hosp.Med.-Co. Prem.	$ 216	$ 50	$ 112	$ 520	$ 309	$ 392	$ 130	$ 130
Wkmns. Comp.	80	48	57	110	77	120[1]	45	49
U.I.C. Federal	70	74	84	162	27	17	25	17
State	-	-	-	-	146	67	91	85
C.P.P. Soc. Sec.	90	95	108	208	225	140	212	142
Benefits - Sub Total:	$ 456	$ 267	$ 361	$ 1,000	$ 784	$ 736	$ 503	$ 423
Total Annual	$ 5,796	$5,949	$ 6,841	$13,506	$ 4,809	$ 3,266	$ 4,225	$ 2,998
Total Cost/hr	$2.90/hr	$2.97/hr	$3.42/hr	$6.75/hr[2]	$2.40/hr	$1.63/hr	$2.18/hr	$1.50/hr

	New York	Ohio	Wisconsin	Illinois
Ontario as % of U.S. Rates:	121%	178%	133%	193%
Québec as % of U.S. Rates:	124%	182%	136%	198%
B.C. Htl. as % of U.S. Rates:	281%	414%	310%	450%

1 Varies from company to company and is based on actual experience.

Note: Vacation Pay, Holidays and Medical is not a statutory requirement in above States
U.S. Wage Rates are adjusted for Canadian exchange rates $1.00 U.S. = $1.05 Cdn.

2 Total Hourly Rate for Food Area Employee $5.31/hr

Annex "2"

COMPARISON OF WAGES AND BENEFITS

Non-Tipped Employees

Canadian Provinces vs United States Current

	Ontario	Québec	British Columbia* Minimum	British Columbia* Htl.Rate	New York	Ohio	Wisconsin	Illinois
		CANADA				UNITED STATES		
Assume working 2000 hrs p.a. at Min. rate	$2.65/hr	$3.15/hr	$3.00/hr	$5.10/hr	$2.42/hr	$2.41/hr	$2.41/hr	$2.42/hr
Maximum Tip Credit	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Annual Earnings	$ 5,300	$ 6,300	$ 6,000	$ 10,200	$ 4,840	$ 4,820	$ 4,820	$ 4,840
Vacation Pay	212	252	240	408	97	145	193	194
Public Holidays	148	202	240	408	135	116	116	116
Sub Total	$ 5,660	$ 6,754	$ 6,480	$ 11,016	$ 5,072	$ 5,081	$ 5.129	$ 5.150

* For most hotels in British Columbia Union rates apply.

COMPARISON OF WAGES AND BENEFITS

Non-Tipped Employees (Cont'd.)

Canadian Provinces vs United States

	Ontario	Québec	British Columbia Minimum	British Columbia Htl. Rate	New York	Ohio	Wisconsin	Illinois
Benefits								
Hospital - Medical Assume 50% married	$ 216	$ 50	$ 112	$ 520	$ 309	$ 392	$ 130	$ 130
Wkmns. Comp.	85	57	57	97	97	241[1]	59	97
U.I.C. - Federal	74	88	84	143	34	34	35	34
- State	-	-	-	-	184	135	121	170
C.P.P. - Soc. Sec.	95	113	108	184	283	282	282	283
Benefits - Sub Total:	$ 470	$ 308	$ 361	$ 944	$ 907	$1,084	$ 627	$ 714
Total Annual Cost	$ 6,130	$7,062	$ 6,841	$ 11,960	$ 5,979	$6,165	$ 5,756	$ 5,864
Total Cost/hr	$3.07/hr	$3.53/hr	$3.42/hr	$5.98/hr	$2.99/hr	$3.08/hr	$2.88/hr	$2.93/hr
Ontario as % of U.S. Rates:					103%	100%	107%	105%
Québec as % of U.S. Rates:					118%	115%	123%	121%
B.C. Htl. as % of U.S. Rates:					300%	194%	208%	204%

1 Varies from company to company and is based on actual experience.

Note: U.S. Wage Rates are adjusted for Canadian exchange rates $1.00 U.S. = $1.05 Cdn.

Annex "3"

MINIMUM WAGES

Canada vs U.S. Federal

Year	67	68	69	70	71	72	73	74	75	76	77
U.S. Federal											
Adj. to Cdn. $	1.51	1.72	1.72	1.67	1.62	1.58	1.60	1.96	2.14	2.27	2.41
Unadj. " " $	1.40	1.60	1.60	1.60	1.60	1.60	1.60	2.00	2.10	2.30	2.30
Ontario	1.00	1.00	1.30	1.50	1.65	1.65	1.80	2.25	2.40	2.65	2.65
Québec	-	-	-	1.15	1.25	1.60	1.70	2.10	2.60	2.87	3.15
British Columbia	1.10	1.25	1.25	1.50	1.50	1.50	2.00	2.50	2.50	3.00	3.00
Alberta	1.15	1.25	1.25	1.40	1.55	1.55	1.75	2.00	2.50	2.75	3.00
Saskatchewan	-	-	-	-	-	1.70	1.75	2.25	2.50	2.80	3.00
Manitoba	1.10	1.15	1.25	1.50	1.65	1.75	1.90	2.15	2.30	2.60	2.95
Nova Scotia	1.10	1.15	1.25	1.25	1.35	1.55	1.65	1.80	2.25	2.50	2.75

Annex "3"

MINIMUM WAGES

Canadian Provinces vs U.S. States*

Adjusted to Canadian Dollar

Year	67	68	69	70	71	72	73	74	75	76	77
Ontario	1.00	1.00	1.30	1.50	1.65	1.65	1.80	2.25	2.40	2.65	2.65
Québec	-	-	-	1.15	1.25	1.60	1.70	2.10	2.60	2.87	3.15
New York	1.62	1.72	1.72	1.93	1.87	1.83	1.85	1.96	2.14	2.27	2.42
Ohio	1.35	1.35	1.35	1.31	1.26	1.24	1.25	1.22	1.63	1.97	2.20
Wisconsin	1.35	1.40	1.40	1.51	1.46	1.44	1.60	1.84	2.03	2.07	2.31
Illinois	1.51	1.51	1.51	1.46	1.41	1.39	1.60	1.71	1.93	2.07	2.42

* Federal minimum applies where State minimum is less.

Labour Standards
in Canada
December 1977
Labour Canada

Minimum Wage Rates for
Young Workers and Students*

Jurisdiction	Rates per Hour		Effective Date
Federal	Employees under 17:	$2.65	April 1, 1976
Alberta	Employees under 18:	$2.85	March 1, 1977
	Students under 18 employed part-time:	$2.50	March 1, 1977
British Columbia	Employees 17 and under:	$2.60	June 1, 1976
Manitoba	Employees under 18:	$2.70	September 1, 1976
Nova Scotia	Underage employees 14 to 18:	$2.50	January 1, 1977[1]
Ontario	Students under 18 employed for not more than 28 hours in a week or during a school holiday:	$2.15	March 15, 1976[2]
Prince Edward Island	Employees under 18:	$2.35 $2.40	July 1, 1977 July 1, 1978
Québec	Employees under 18:	$2.80 $2.95 $3.07	January 1, 1977 July 1, 1977 January 1, 1978
Northwest Territories	Employees under 17:	$2.55	June 7, 1976

*New Brunswick, Newfoundland, Saskatchewan and the Yukon Territory have no special rates for young workers or students.

1 Nova Scotia -- Except with approval of Minimum Wage Board, no more than 25 per cent of employer's total workforce may be underage employees (14-18), except where his total working force is 7 or less he may employ 2. In a hotel, restaurant, motel or tourist resort during the period June 15 - September 15, up to 60 per cent of employees may be underage workers. These rates do not apply in beauty parlours, logging and sawmill operations or road building and heavy construction.

2 Ontario -- Student rates do not apply to the ambulance or construction industries.

Labour Standards
in Canada
December 1977
Labour Canada

Hours of Work

Jurisdiction	Standards Set	Application
Federal	Standard hours: 8, 40 after which 1½ times the regular rate Maximum hours: 48	Federal industries Exclusions: managers, superintendents and professional employees Exceptions[1]
Alberta	Maximum hours: 8, 44 after which 1½ times the regular rate	Most employees Exclusions: managerial and confidential employees, farm labour, domestic service; Crown employees and municipal policemen Exceptions[1]
British Columbia	Maximum hours: 8, 44 Overtime at 1½ times the regular rate in excess of 40 in a week and 8 in a day	Exclusions: managerial and confidential employees Exceptions[1]
Manitoba	Standard hours: 8, 40 after which 1½ times the regular rate	Most employees Exclusions: professional employees, farming, domestic service, fishing, construction, travelling salesmen and a few other classes of employees
New Brunswick	Maximum hours: Employees under 18 9, 48 Overtime: 1½ times the minimum rate after 44 hours	Most employees Exclusions: domestic service or farming Exceptions[1]
Newfoundland	Maximum hours: Shop Employees: 8, 40 Overtime: 1½ times the regular rate in excess of 40 in a week and 8 in a day for shop employees. Other employees 1½ times the regular rate after 44 hours	Most employees Exclusions: farming and domestic service
Nova Scotia	Maximum hours: 48	Most employees Exclusions: professional employees or students of these professions, farm, labour, domestic servants, certain apprentices Exceptions[1] and a few other classes of employees

Jurisdiction	Standards Set	Application
Ontario	Maximum hours: 8, 48 Overtime: 1½ times regular rate after 44 hours	Most employees Exclusions: supervisory and managerial employees, professional employees and students of these professions, farm workers, domestic servants, construction, commercial fishermen, resident janitors or caretakers, and a few other classes of employees Exceptions[1]
Prince Edward Island	Maximum hours: 48 Overtime: 1½ times minimum rate after 48	Most employees Exclusions: registered apprentices, farm labourers and persons employed for the sole purpose of protecting and caring for children in private homes
Québec	Standard hours: 45 after which 1½ times the minimum rate is paid. (The fishing and harvesting industries and watchmen are excluded from overtime provisions)	Most employees Exclusions: employees governed by decree, those covered by special minimum wage ordinances, farm workers, domestics and a few other minor groups
Saskatchewan	Standard hours: 8, 40 after which 1½ times the regular rate Special provisions are set for a 4-day week: 10, 40 after which 1½ times the regular rate is paid	Most employees Exclusions: northern area of province, managerial employees, farm workers, domestic servants, certain professions and students of these professions, commercial travellers, logging, road construction, and a few other classes of employees Exceptions[1]
Northwest Territories	Standard hours: 8, 44 Maximum: 10, 54 Exception: mining and petroleum exploration; isolated transportation and tourist camps; 176 hours in 4 consecutive weeks, maximum 216 Overtime: 1½ times the regular rate after standard hours	Most employees Exclusions: hunting or fishing guides
Yukon Territory	Standard hours: 8, 40 Maximum: day, 10; week, 60; month, 260. Overtime: 1½ times regular rate after standard hours. Note: Persons employed in mines not to work in excess of standard hours	Most employees Exclusions: members of the employer's family, prospectors, travelling salesmen and a few other minor groups

1 Different standards set by regulation for some industries.

Overtime Rates

Jurisdiction	Overtime Rates
Federal	$1\frac{1}{2}$ times the regular rate after 8 or 40 hours
Alberta	$1\frac{1}{2}$ times the regular rate after 8 or 44 hours
British Columbia	$1\frac{1}{2}$ times the regular rate after 8 or 40 hours*
Manitoba	$1\frac{1}{2}$ times the regular rate after 8 or 40 hours
New Brunswick	$1\frac{1}{2}$ times the minimum rate after 44 hours*
Newfoundland	$1\frac{1}{2}$ times the regular rate after 44 hours[1]*
Nova Scotia	$1\frac{1}{2}$ times the regular rate after 48 hours[2]*
Ontario	$1\frac{1}{2}$ times the regular rate after 44 hours[3]
Prince Edward Island	$1\frac{1}{2}$ times the minimum rate after 48 hours*
Québec	$1\frac{1}{2}$ times the minimum rate after 45 hours[4]*
Saskatchewan	$1\frac{1}{2}$ times the regular rate after 8 or 40 hours
Northwest Territories	$1\frac{1}{2}$ times the regular rate after 8 or 44 hours
Yukon Territory	$1\frac{1}{2}$ times the regular rate after 8 or 40 hours

*Set by minimum wage orders.

1 Newfoundland -- Not applicable to farm workers. Shop employees governed by Hours of Work Act, $1\frac{1}{2}$ times the regular rate after 8 or 40 hours.

2 Nova Scotia -- Road building and heavy construction, and employees in transport industry required to be away from home base overnight, $1\frac{1}{2}$ times minimum rate after 96 hours in two weeks.

3 Ontario -- Highway transport, $1\frac{1}{2}$ times regular rate after 60 hours; local cartage, $1\frac{1}{2}$ times regular rate after 55 hours; road building, $1\frac{1}{2}$ times regular rate after 50 or 55 hours, depending on class of work; watermain construction, $1\frac{1}{2}$ times regular rate after 50 hours; seasonal employees not working more than 16 weeks in a year in fruit and vegetable processing industry and in hotel, motel, tourist resort, restaurant and tavern industry (in latter case, if provided with room and board), $1\frac{1}{2}$ times regular rate after 55 hours.

4 Québec -- Employees in fishing or fish processing, watchmen and employees engaged in fruit and vegetable picking and processing during the harvest season are not entitled to overtime pay; forest operations, $1\frac{1}{2}$ times the minimum rate after 48 hours; sawmills, $1\frac{1}{2}$ times the minimum rate after 50 hours; retail food trade, $1\frac{1}{2}$ times the minimum rate after 40 hours.

PART 5
OF
ANNEX "D"

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE

ON

THE REGULATORY FRAMEWORK

THE REGULATORY FRAMEWORK SUB-COMMITTEE
SUMMARY REPORT AND RECOMMENDATIONS

INTRODUCTION

Guided by the mandate given the Tourism Industry Consultative Task Force, the Sub-Committee on Regulatory Framework proceeded to examine the issues identified in the Sub-Committee scope description, which emphasized the need to examine the Regulatory Framework on transportation and the approvals procedures prescribed for handling applications for tourism development projects.

Specific areas identified for investigation were reviewed in detail. Solutions were sought to problem areas and recommendations were prepared for referral to the Task Force.

Priorities were established to facilitate action.

RECOMMENDATIONS

A. Transportation

1) General Policy

a) Each transportation mode should be developed on sound business principles, with the concept of subsidization, or cross-subsidization, rejected except in those cases where transportation services are required to remote areas or materially less developed points, in support of national and/or regional development objectives.

b) Federal and Provincial authorities should undertake prior consultation with the tourism industry on all matters involving transportation as it bears on tourism, prior to the implementation of such policy.

2) Air Carriers

a) A re-evaluation of current government policy should be conducted on mainline, regional and local or third level air services in view of the importance of air transportation to the development of tourism.

b) Consideration should be given to the growth of an increased number of facilities at airports with the ability to handle inbound international charter traffic, and that a more responsive attitude and greater mobility in meeting the needs of such traffic be displayed by the customs and immigration authorities.

c) The airport user-pay policy makes air transportation in Canada non-competitive with that of the United States and is detrimental to Canadian tourism development.

The industry is in general agreement with the principle of the necessary "functional" requirements being charged to the user whenever it is economically justifiable.

However, governments should assume all costs related to social and/or regional development of facilities. Airports can be classified as full-recovery, partial recovery or nil recovery. Anything in excess of necessary "functional" requirements should not be paid by the users (i.e. artwork). The users must have a very strong voice in what is defined as "functional" requirements. All users, including carriers, concessionaires, the travelling as well as general public should share the burden of paying for "functional" requirements.

d) The existing CTC policies should be reviewed to ensure that, while these regulations govern all air travel within, to and from Canada, prominent importance is given to air transport as a vehicle to increase and improve tourism travel to and within Canada. Discussions should be held with all interested parties concerned with those regulations of a potentially restrictive nature.

e) It is recommended that where baggage inspection is mandatory at airports, that scanners should be universally used to avoid the negative impact created with the travelling public due to personal inspection of luggage by airport security personnel.

3) Bus Lines

a) An urgent need exists for uniformity of provincial regulations regarding non-resident bus line operations which should result in the encouragement of any licensed operator to operate anywhere in Canada, including city tours if his traffic originates in another city.

b) The requirement for bus operators from other provinces or states to use local operators for city sightseeing, not only represents an additional cost and inconvenience to both operators and visitors, but often leads to the use of sub-standard equipment which creates a real impediment to tourism.

4) Rail Services

User pay as a principle does and should apply to passenger rail transportation in Canada, except where passenger rail transportation is necessary but not economical: then subsidies are warranted.

5) Private Auto

Variations in provincial laws governing liability in the case of traffic accidents can be detrimental to the development of tourism. Provincial governments, in enacting new automobile insurance legislation, should be aware of the potential in improving, or adversely affecting, that province's tourism image to the private motorist. A case in point is the reaction to the new Québec Auto Insurance Act with its ramifications in the field of accident compensation. It is recommended that action be taken to alleviate this situation or to provide visitors with extended liability insurance based on their specific needs.

6) Rental Vehicles, including Campers & Motorhomes

There is an urgent need to standardize the provincial regulations governing licensing requirements for lessors of vehicles having a carrying capacity of 9-14 passengers. In all provinces except Ontario, it is possible to rent and drive such a vehicle (Rally wagons or sports vans) with a regular driving license. In Ontario, prospective lessors of such vehicles must secure a special license. In view of the desire of tourists to rent such vehicles and to cross provincial boundaries on their vacations, the current non-standard licensing requirements act as a deterent to tourism.

It is recommended that Canadian municipalities review their existing licensing regulations with respect to rent-a-car firms to eliminate, where possible, what appears to be discriminatory practices of double-taxation.

It is recommended that Canadian municipalities consider licensing such firms on the basis of each rental location rather than on a per-registered vehicle basis.

7) Inland Waters

The requirement for the establishment of passenger ship services are unduly harsh and should permit the use of bonding rather than cash deposits.

8) Marine (Boat Rental) Harbour & Ferry Systems

a) Pacific Cost

i) Need to consider the impact on tourism of policy changes pertaining to the quality, capacity and cost of ferry services;

ii) Regulations should not ignore the growing foreign cruise vessel market into British Columbia points.

b) Atlantic Coast

The importance of the quality,capacity and rate structure of ferry services to the Atlantic Provinces to the development of tourism is given inadequate attention.

c) Small vessel regulations are unrealistically rigid and detailed. Insufficient consideration is given to the various types of water traffic, i.e. harbour - coastal - Great Lakes - and off-shore over open waters and therefore creates undue financial hardship on vessel owners.

9) Sales Outlets Regulations

That the current carrier appointment systems of travel agencies in Canada be reviewed as to how changes to the systems would encourage the Canadian travel agent to better support the sales of Canadian destination tourist products.

It is recognized that this is foremost a matter to be discussed between the Air Transport Association of Canada (ATAC) and the Alliance of Canadian Travel Associations (ACTA), but increased regulatory actions of a licensing nature by the various provincial governments should be evaluated in connection with this subject.

10) Environmental Protection

a) Attention should be given to the uniform application of legislative requirements both between provinces and federal authorities and also within each government's separate jurisdiction.

b) Require long-term, clearly defined objectives governing investment decisions so that uncertainty can be eliminated and corporate planning proceeds normally.

c) A careful monitoring of the effect on fishing of water pollution must be conducted at regular intervals but action must be taken also to ensure that such inspections and actions therefrom are not overdone.

11) National Parks

a) The Committee feels that tourists place high priority on visiting our National Parks, but are prevented by lack of facilities of all types. If the parks are to be used by Canadians and foreign visitors (other than hikers and campers) then more accommodation must be provided and to do this the Parks Department should make its regulations more workable. For example - in 1966, the then Minister of Northern Affairs stated "When completed, the visitor complex in the lower Lake Louise area will provide a shopping centre and over 1,000 accommodation units to meet the needs of summer and winter visitors".

b) Twelve years later, two small hotels have been built with a total of 400 beds. Obviously, the call for tenders issued in 1965 were far too stringent to attract hotel operators. The above example is typical and the demand is still there.

c) This Committee would suggest that new criteria be established to encourage the development of "tourist oriented facilities" within designated growth areas identified in existing and future National Parks.

d) More specifically, the Committee urges government to encourage the construction of hotel, motel, convention and campground facilities; including auxiliary and related business services. It is further recommended that the administration of the National Parks be removed from the jurisdiction of the Department of Indian and Northern Affairs and transferred to that of the Department of Industry, Trade and Commerce.

12) Tourist Facilities Development

The growing tendency of governments to have dozens of regulatory agencies involved in approvals procedures for tourist facilities development has been responsible, in large degree, for the large exodus of Canadian investment capital. Investors interested in placing capital funds into tourist facilities in Canada have indicated to the Regulatory Sub-Committee examples of their frustrating experiences in attempting to develop such enterprises. These frustrations appear to stem from the lack of a centralized control responsible for guiding these investors through, in most incidents, a maze of agencies involved at the municipal, provincial and federal levels of government, such as fire, health, building codes, etc.

Such control currently is exercised by one Provincial Government Tourism Department, which

could be used as a model for others to follow. This model is based on providing the necessary technical expertise to advise and guide potential investors through the necessary agencies to obtain approval for development projects. This guidance and advice highlights where necessary, the action required by these investors as well as by the involved agencies.

Thus in the decision process, the factors which will positively stimulate travel to and within Canada will prevail.

13) Liquor Regulations

Liquor regulations differ from province to province and inhibit tourist development, particularly where they involve comsumption of alcohol in food and beverage outlets, at special events, and during Sundays and some public holidays - all occasions or times which generally stimulate tourist travel. The Committee recommends that the federal government attempt to have the provinces continue to liberalize and standardize liquor regulations.

CONCLUSION

In undertaking this review of the Regulatory Framework, within which the tourism industry operates, the Committee concluded that it could optimize its contribution to the Canadian economy if there were less intervention from all levels of government.

Regulations have largely impeded the growth of tourism, rather than hasten its growth. There is a requirement to modernize these regulatory processes and have them respond to needs of the industry and the market rather than as a policing function.

Tourism has not been given sufficient priority in the past, where conflicts in policy or regulatory processes have arisen between Departments or different levels of government. These conflicts should be arbitrated promptly within government at a high enough level which would give due consideration to the importance of tourism to the Canadian economy. Regulations impacting on the tourism industry should make a positive contribution to its growth.

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE

ON

SMALL BUSINESS

SMALL BUSINESS SUB-COMMITTEE

SUMMARY REPORT AND RECOMMENDATIONS

1. OBJECTIVE

The report of the Small Business Sub-Committee is directed towards two basic objectives:

a) the upgrading of the physical plant developed to serve the needs of travellers in Canada;

b) the upgrading of the personnel employed in that physical plant.

While these two aspects of the travel industry are not unique to small business, they are of particular concern and have been identified as being of special importance to tourism. If services provided to the visitor are not of a high standard, many of the improvements recommended in other areas of tourism will be less effective as a result.

The Sub-Committee looked at these two objectives with a view to establishing some principles that could be used as a basis for their attainment. In addition, the Sub-Committee was asked to review and report on a proposal dealing with the establishment of duty-free shops at highway border crossings.

2. INDUSTRY SUMMARY

The role of small business in tourism is critical as many of the varied types of establishments that serve the tourist fit within the definition of small business. Four business categories are of particular concern:

a) accommodation, including campgrounds,
b) restaurants, beverage service,
c) service stations,
d) travel agencies.

These establishments are the ones that the tourist must deal with on a day-to-day basis and, hence, if the physical plant or the personal service are inadequate, the visitor will receive less than value for money on his trip. The result will undoubtedly be a poor impression of the place, the region, the province or of Canada as a whole.

3. ASSUMPTIONS

There are four major assumptions underlying this report:

a) there are many programs available from government to assist the small business operator upgrade his plant and his skills;

b) many of these programs are piecemeal and need to be redirected or revamped to be more effective;

c) the development of plant and personnel standards must take place on a national basis although the application of the standards will be provincial/territorial;

d) that private industry, acting collectively, must play a key role in the development of standards and in the application of them.

4. ISSUE

The basic issue addressed in this report can be stated quite clearly. It is necessary to develop confidence in the small business operators in tourism so that they become proud of what they are doing; so that they believe in themselves. It is to enable them to do what they do best and do it well.

5. RECOMMENDATIONS

(a) Plant Upgrading

A nationally consistent grading system is recommended and it must be developed by the provinces and territories collectively. Three rating systems are necessary; for,

i) accommodation - the system currently in operation in Manitoba and Sasktachewan should serve as the basis for a national system;

ii) restaurants, beverage services - a system must be developed by the Canadian Restaurant and Foodservice Association and its provincial counterparts;

iii) service stations - a system must be developed by the appropriate national and provincial and territorial associations.

Once the grading system is in place, it should be:

(a) mandatory for all new establishments or those affected by change of ownership to be graded,

(b) for all other established business, a catch-up period not to exceed 36 months would be allowed.

The rules for the standards used in the system would be developed by the appropriate national and provincial/territorial associations in consultation with respective governments. Inspection of premises would be carried out by person or persons designated by recognized associations with financial assistance being provided by the appropriate government agency.

The key to the success of any grading system is that the standards must be developed by industry acting through the appropriate local, regional, provincial, territorial and national associations. Grading systems for accommodation are in existence in several provinces and are being considered in others. The Sub-Committee reviewed in detail the systems currently in place in Manitoba and Saskatchewan. The following documents are available from the provinces indicated:

(a) Province of Manitoba: Chapter T100, The Tourism and Recreation Act and Regulations Governing Transient Accommodation Facilities;

(b) Province of Saskatchewan: Saskatchewan Regulations 103/76, Saskatchewan Travel Accommodation Regulations;

(c) Province of Saskatchewan: Saskatchewan Regulations 136/77, Minimum Requirements for Approved Vacation Farms.

The Province of Ontario recently completed a major review of grading systems for accommodation. Grading systems are also in place in a number of European countries.

The Sub-Committee recommends that the various systems that have been tried should form the basis of the dialogue that will be necessary amongst operators, associations and government departments in the development of a nationally consistent system.

The grading system as proposed is needed now:

(a) to ensure the visitor of an accurate identification of facilities across Canada,

(b) to encourage the future development of high quality tourism plant in Canada.

The Sub-Committee feels that the development of grading systems for the various sectors of the tourism industry should be looked on as a first step. A longer range goal should be the development of nationally consistent rating systems.

The Sub-Committee concurs with and endorses the recommendation of the Tourism Industry Development Sub-Committee which reads: "that CGOT, provincial and territorial governments and industry associations take initiatives to consider the needs, benefits and costs of a grading system of

facility standards (accommodation, food service to begin with, considering by standard sector classification); and aiming at cross-Canada uniformity".

(b) Training

The upgrading of the physical plant must be accompanied by a parallel upgrading of personal skills. Three separate levels of skill are seen, each with its own particular requirements. These are:

i) Owner/Management
ii) Department Heads
iii) Skilled Trades.

The critical area that must be tackled first is that of management. Without highly qualified and motivated management, the use of training programs at the other two levels will be less effective than would be desired.

In dealing with the training of owners and managers, the Sub-Committee recommends that:

i) national associations of the private sector in tourism, working with the appropriate educational bodies, develop a series of short two to three day seminars that can be held in centrally located towns and cities across Canada. These seminars should be held as close as possible to the place of business, in recognition of the difficulty an owner/manager has in getting away from his work place.

ii) in recognition of the need for better management, efforts should be made by provincial and territorial associations to encourage owners and managers to set a good example for further staff training by attending at least one such seminar a year.

Three other aspects of training require further study.

(a) There are a great many training opportunities available to the industry. The Sub-Committee is of the opinion that these courses are not always what is needed and where they are needed. An evaluation of the entire training process by private industry and those agencies involved in training is required to ensure that the programs:

i) make sense to the industry
ii) motivate training
iii) disseminate the required skills.

(b) The cost of the programs that are currently offered was singled out as an area of concern. The rationalization process referred to above should help to reduce the current cost.

(c) There must be an incentive to the employer to encourage staff training.

i) for staff training the employer would qualify for a grant equal to 50 per cent of the staff cost while the staff was away on training courses.

ii) as a general principle, unless pre entry to the work force, upgrading courses should be kept short and should be offered near the place of business.

The Sub-Committee concurs with and endorses the recommendation of the Tourism Industry Development Sub-Committee which reads: "that the industry -- probably via provincial Manpower Needs Committees or via NAC consult with provincial tourism officials or CCTO, as to the needs for additional tourism/hospitality education and training facilities of the calibre of L'Institut du Tourisme et de l'hôtellerie du Québec, perhaps one or two regionally located, or perhaps of the New Brunswick mobile type; that industry/governments consider course specialization in subjects/skills deemed urgently needed, based upon estimates prepared by industry."

The Sub-Committee recognizes the valuable work being undertaken by the National Advisory Committee on Manpower, Education and Training in the Accommodation, Food, and Beverage Services Sector, in the field of training and recommends that the National Advisory Committee should be encouraged to continue its work with all possible speed and that it be given the resources by both industry and government to enable it to complete its tasks.

(c) Financial Incentives

While the application of a grading system will encourage the upgrading of the physical plant, some form of financial incentive also must be available. There are a number of financial incentive programs now available but they are not all applicable on a national basis and in many cases do not seem to meet the real needs of the small business sector.

It is recommended that financial incentives be linked to the creation of new jobs through the development of new facilities or the refurbishing or expansion of existing facilities.

The Sub-Committee concurs with and endorses the recommendation of the Tourism Industry Development Sub-Committee which reads: "that the CGOT with a small committee from DREE, provincial and territorial representations, FBDB, and representations of private tourism interests study the possible needs (as emerge from a country-wide development strategy),the costs/benefits and ways and means of funding support for high priority projects in 'opportunity' areas".

The Sub-Committee commends the recent initiatives of the Minister of State for Small Business. As the new measures emerge from this activity, CGOT, provincial and territorial authorities and industry associations should work together to ensure that they are applicable to tourism and that they be given wide publicity within the tourism private sector.

In connection with the Small Business Loans Act, the limits should be raised to $250,000 (amount of loans outstanding) and $2,000,000.00 (gross revenue). There may be a problem of chartered banks requiring mortgages for a small business loan. They should accept a second mortgage as the loan is government guaranteed.

(d) Communications

Small business is concerned about the bureaucratic process involved in the collection and dissemination of information that is necessary to the small business operator.

There is a need for a publication that would bring together in one place all of the information required by a prospective operator before starting a new business. This type of publication should be accompanied by a system of easier and simpler access to government information. The basic problem is where to go and whom to talk to.

(e) Duty-free shops - Highway Border Crossings

The Sub-Committee was asked to review a proposal concerning the establishment of duty-free shops at highway border crossing locations. The establishment of these shops would extend to the automobile traveller the same facilities now available to air travellers and to road travellers entering Canada from the United States. The Sub-Committee recommends that the proposal be given further study by a committee drawn from the appropriate federal and provincial and territorial government departments, provincial, territorial and national industry associations and potential suppliers of merchandise. The further study should include a detailed look at costs and benefits and at the ways and means of implementing that would ensure the small business community an opportunity for investment.

The study should also consider how the duty-free shops, if established, could function as currency exchange facilities.

TOURISM INDUSTRY CONSULTATIVE TASK FORCE

SUB-COMMITTEE

ON

TRAVEL INDUSTRY AWARENESS

TRAVEL INDUSTRY AWARENESS SUB-COMMITTEE

SUMMARY REPORT AND RECOMMENDATIONS

OBJECTIVES

To develop recommendations that will lead to an increased public awareness of the importance of tourism and to improve the attitudes of all resident Canadians, as well as those dealing with visitors in a business relationship, in both the private and public sectors.

BACKGROUND

In recent years, Canada has experienced a declining volume of visitors from the United States combined with an increasing trend on the part of Canadians to travel less frequently within their own country. Concurrently, government agencies and private sector organizations involved in the tourism industry have received an increasing number of complaints from foreign visitors, but more particularly from Canadian travellers themselves, about an indifferent "don't give a damn" attitude on the part of people employed in the service sectors of the Canadian travel and tourism industry. These complaints are more specifically directed to smaller types of businesses, motels, restaurants, service stations, and other facilities serving the visitor who travels by private automobile.

RECOMMENDATIONS

In its examination of available information on the subject of public awareness of tourism, the Sub-Committee has concluded that while our current difficulties may be national in scope, the remedial action required can best be applied at the local level.

This conclusion acknowledges that in Canada there are regional conditions and circumstances that can most effectively be dealt with at close range by the appropriate agencies, both private and public, working in concert.

The Sub-Committee further acknowledges that the private sector should, in most cases, assume primary responsibility for initiating corrective action, while the role of governments should be to support these initiatives through instruments available to them which normally would not be considered within the scope or the resources of the private sector. A specific example of how this process has been applied effectively is in the current awareness and currency "fair exchange" campaigns being conducted across the country. In many cases the first steps were taken by municipal visitors and convention bureaux and regional tourism associations. These, in turn, were supported and in some cases enhanced, by advertising and publicity campaigns sponsored by provincial tourism ministries, e.g. British Columbia, Alberta, Ontario and Nova Scotia. Support at the federal level was provided by a national radio campaign funded by CGOT.

The Sub-Committee therefore makes the following recommendations:

Recommendations to the CGOT

1) PRIORITY 1: That for the foreseeable future, the Canadian Government Office of Tourism (CGOT), Department of Industry, Trade and Commerce (IT&C), include in its overall advertising and publicity activities a program to emphasize the importance to Canadians of a friendly and courteous attitude to all visitors and travellers in our country. Funds for this program should be additional and not be obtained by the diversion of resources from CGOT's already strained marketing budget, which has been seriously eroded by the devaluation of the Canadian dollar and other inflationary pressures. In making this recommendation, we are not implying that awareness programs should be the sole responsibility of CGOT. Current provincial and territorial governments and private sector associations' activities support our view, and we simply wish to record that the aforementioned activities should be maintained and integrated into both private sector and government tourism promotion programs in Canada for an indefinite period.

2) That CGOT assist and support the public awareness initiatives of provincial and territorial tourism departments, and private sector organizations, by compiling all available information on these various activities and serving as a clearing house and disseminator for this material to assure that all parties concerned are aware of each other's projects. This compilation of information should include, whenever available, assessments and post-project research of the

effectiveness of these programs. It is further recommended that CGOT, in co-operation with provincial and territorial tourism departments, organize annual seminars, regionally, to keep the private sector of the tourism industry aware and up-to-date on all programs and forms of assistance in the fields of education, training and other incentives available from provincial and federal resources. In most instances this would not require organizing a completely new series of meetings, but could be largely achieved through presentations made at regular meetings of local branches of the various industry associations.

3) That CGOT continue to work closely with national associations in the private sector, e.g., the Tourism Industry Association of Canada, the Canadian Restaurant and Foodservices Association, etc., in support and assistance of the attitude and behavioural aspects of their respective manpower training and educational programs.

4) That for the duration of the depreciated Canadian dollar situation, CGOT spearhead the efforts at the federal level to ensure that American visitors receive "fair exchange" on their U.S. currency by:

i) examining the feasibility of establishing currency exchange facilities at or immediately adjacent to major border crossing stations between the United States and Canada;

ii) continuing to emphasize in all its advertising and travel information circulated in the United States that prospective U.S. visitors to Canada exchange their U.S. currency for Canadian funds either prior to entering Canada or at a Canadian chartered bank as soon as possible after crossing the border.

5) PRIORITY 2: That CGOT continue on an expanded basis to communicate the economic importance of tourism to other federal departments as it did in the current year with its seminars held in conjunction with the Canada Customs Training Program. The Sub-Committee recommends that these seminars be expanded to include other federal departments which have personnel who come into regular contact with the travelling public. In addition to Canada Customs, these would include Employment and Immigration, Parks Canada, Ministry of Transport and the Royal Canadian Mounted Police. As a supplement to these training activities, CGOT would provide editorial support material in the form of tourism information and economic data which can be used by federal agencies in their respective employee communications media.

6) That the Federal Minister of Industry, Trade and Commerce recommend to his provincial colleagues that they approach their respective Ministers of Education with a view to including the importance of tourism as an industry in the educational curricula at appropriate levels in the school systems in their respective jurisdictions. It should be noted that such changes would not, in the first instance, necessitate costly revisions in existing text books. It could be effectively accomplished by producing addenda to these texts and the utilization of other teaching aids such as audio/visual packages, travel films, and lectures and seminars given by senior officials in the tourism industry from both private and public sectors.

Recommendations to Provincial and Territorial Governments

The Sub-Committee commends those provincial and territorial governments that have initiated awareness programs. It recommends that these programs be continued and expanded, where possible, to become a continuing element of their respective tourism promotion programs.

Other Recommendations

1) That provincial and territorial tourism departments provide motivation and support to the maximum extent possible to stimulate the efforts of the private sector in all its undertakings related to public awareness and attitudinal improvement.

2) That Provincial and Territorial Ministers of Tourism exhort their colleagues in the Education portfolio to include tourism and its economic benefits to their respective regions in the educational curricula at the appropriate grade levels.

3) That for the duration of the depreciated status of the Canadian dollar, provincial and territorial tourism departments, in concert with federal and private sector initiatives,

actively encourage the "fair exchange" philosophy for the handling of United States and other foreign currency.

Recommendations to Industry

The Sub-Committee acknowledges that many of the suggestions that it considered in its own deliberations on attitudinal behaviour and professional competence at the "front line" level in the hospitality industry will also be examined by the Sub-Committee dealing with manpower training. However, it still wishes to record its belief that the upgrading of service skills and attitude training are basic building blocks in the creation of a high quality Canadian tourism product. It also wishes to formally state that management has the obligation to support such programs and make them readily accessible to their personnel.

Specifically, the Sub-Committee makes the following recommendations to the private sector:

1) That the hospitality industry, through its associations such as the Tourism Industry Association of Canada, its provincial counterparts, and others such as the Canadian Restaurant and Foodservices Association and its respective provincial/territorial bodies, take vigorous initiatives with their local municipal governments, Chambers of Commerce, Junior Chambers of Commerce, service clubs, and appropriate representative groups from organized labour whose members are employed in the travel and tourism industry, to emphasize at the community level the importance of tourism to every Canadian's economic well-being. Inherent in this recommendation is that through municipal governments, the co-operation of law enforcement agencies be sought in displaying a courteous, hospitable attitude towards visitors. In areas where the RCMP fulfills the role of the local policing agency, elected civic officials should discuss this with officers at local detachments, but at the same time there is a responsibility for CGOT to communicate its interest to the appropriate officials at RCMP Headquarters in Ottawa (see Recommendation No. 5, page 134).

2) PRIORITY 3: The subject of fair exchange" rates on U.S. currency has been referred to in the recommendations made by the Sub-Committee to the Federal Government. However, it wishes to reiterate the "fair exchange" policy should be a basic policy decision of all travel and tourism industry management. For the purposes of this paper, "fair exchange" is defined as being within 2 per cent of the rate being offered by the chartered banks. While there are indications that more attention is being given to this subject, patterns across the country, particularly in the rural recreational areas, are widely inconsistent. Local tourist and visitors associations and Chambers of Commerce are probably in the best position to bring pressure to bear on their business colleagues to make "fair exchange" a basic element in their daily business practice. In some regions, visitors and convention bureaux have made it a practice during the tourism season to obtain the current U.S. dollar exchange rate from a local chartered bank and advise local radio and television stations as well as daily newspapers, if applicable, of the exchange rate. This serves the dual purpose of informing business operators of the exchange rate they should be giving, as well as informing U.S. visitors what rate of exchange they have a right to expect.

SUMMARY

In submitting these recommendations, the Sub-Committee believes that a successful public awareness program on the tourism industry will benefit the Canadian economy in the following specific ways:

1) Canadians will recognize tourism as a significant contributor to the national economy and in turn to their own personal economic well-being.

2) Increased public awareness should create more grass-roots pressure on all levels of government to enhance tourist facilities and potential tourism development.

3) There would be a consequent increase in the number of young people who are attracted to careers in the tourism industry because of its importance and potential for growth. Assuming that they pursue the appropriate educational and training programs currently available in community colleges and other institutions, this would produce a higher level of service and general upgrading of the Canadian tourism product to a standard of quality comparable to the United States in particular, as well as other competitive tourist destinations in other countries.

4) Re-establishment of Canada as a pleasant and desirable travel destination should enhance Canadians' pride in their country with a consequent strengthening of a sense of national unity.

GLOSSARY

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AAA	American Automobile Association
ABC	Advance Booking Charter
ACTA	Alliance of Canadian Travel Associations
ATAC	Air Transport Association of Canada
CAA	Canadian Automobile Association
CASE	Counselling Assistance to Small Enterprises
CCA	Capital Cost Allowance
CCF	Charter Class Fare
CCTO	Canadian Conference of Tourism Officials
CMHC	Central Mortgage and Housing Corporation
CNE	Canadian National Exhibition
CGOT	Canadian Government Office of Tourism
CPP	Canada Pension Plan
CRFA	Canadian Restaurant and Foodservices Association
CTC	Canadian Transport Commission
DREE	Department of Regional Economic Expansion
FBDB	Federal Business Development Bank
FST	Federal Sales Tax
GDA	General Development Agreement
IDCT	Interdepartmental Committee on Tourism
ITC	Inclusive Tour Charter
IT&C	Department of Industry, Trade and Commerce
MOT	Ministry of Transport
MURB	Multiple Unit Residential Building
NAC	National Advisory Committee on Manpower, Education and Training, in the Accommodation, Food and Beverage Services Sector
OTC	One-stop Tour Charter
RDIA	Regional Development Incentives Act
RHOSP	Registered Home Ownership Savings Plan
SBLA	Small Business Loans Act
TIAC	Tourism Industry Association of Canada
TIDP	Travel Industry Development Program

UIC	Unemployment Insurance Commission
USTS	United States Travel Service
VAT	Value Added Tax
VEIC	Venture Enterprise Investment Companies

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